

SOYBEANS AND THE WORLD MARKET

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL
PRODUCTION AND STABILIZATION OF PRICES

AND THE

SUBCOMMITTEE ON DOMESTIC AND
FOREIGN MARKETING AND PRODUCT PROMOTION

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE QUESTION OF WHETHER THE MARKETING LOAN PROGRAM
SHOULD BE EXPANDED TO INCLUDE SOYBEANS

MARCH 18, 1988

Printed for the use of the Committee on Agriculture, Nutrition, and Forestry



U.S. GOVERNMENT PRINTING OFFICE

85-998

WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

5161-26

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

PATRICK J. LEAHY, Vermont, *Chairman*

JOHN MELCHER, Montana	RICHARD G. LUGAR, Indiana
DAVID H. PRYOR, Arkansas	ROBERT DOLE, Kansas
DAVID L. BOREN, Oklahoma	JESSE HELMS, North Carolina
HOWELL HEFLIN, Alabama	THAD COCHRAN, Mississippi
TOM HARKIN, Iowa	RUDY BOSCHWITZ, Minnesota
KENT CONRAD, North Dakota	MITCH McCONNELL, Kentucky
WYCHE FOWLER, Jr., Georgia	CHRISTOPHER S. "KIT" BOND, Missouri
THOMAS A. DASCHLE, South Dakota	PETE WILSON, California
JOHN B. BREAUX, Louisiana	DAVID K. KARNES, Nebraska

CHARLES RIEMENSCHNEIDER, *Staff Director*

JOHN PODESTA, *Chief Counsel*

CHRISTINE SARCONI, *Chief Clerk*

CHARLES CONNER, *Staff Director for the Minority*

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

JOHN MELCHER, Montana, *Chairman*

KENT CONRAD, North Dakota	JESSE HELMS, North Carolina
HOWELL HEFLIN, Alabama	ROBERT DOLE, Kansas
DAVID L. BOREN, Oklahoma	THAD COCHRAN, Mississippi
WYCHE FOWLER, Jr., Georgia	MITCH McCONNELL, Kentucky
DAVID H. PRYOR, Arkansas	CHRISTOPHER S. "KIT" BOND, Missouri
THOMAS A. DASCHLE, South Dakota	PETE WILSON, California

SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION

DAVID H. PRYOR, Arkansas, *Chairman*

THOMAS A. DASCHLE, South Dakota	THAD COCHRAN, Mississippi
JOHN MELCHER, Montana	JESSE HELMS, North Carolina
KENT CONRAD, North Dakota	CHRISTOPHER S. "KIT" BOND, Missouri
TOM HARKIN, Iowa	PETE WILSON, California
JOHN B. BREAUX, Louisiana	RUDY BOSCHWITZ, Minnesota
	DAVID K. KARNES, Nebraska

CONTENTS

SOYBEANS AND THE WORLD MARKET

HEARING HELD ON MARCH 18, 1988

	Page
Melcher, Hon. John, a U.S. Senator from Montana, opening statement.....	1
Pryor, Hon. David H., a U.S. Senator from Arkansas, prepared statement.....	2
Factsheets and charts.....	4
Conrad, Hon. Kent, a U.S. Senator from North Dakota, prepared statement.....	16
Heflin, Hon. Howell, a U.S. Senator from Alabama.....	20
Bond, Hon. Christopher S. "Kit", a U.S. Senator from Missouri.....	21
Prepared statement.....	23
Cochran, Hon. Thad, a U.S. Senator from Mississippi.....	25
Prepared statement.....	25
Charts and graphs.....	26
McConnell, Hon. Mitch, a U.S. Senator from Kentucky, prepared statement....	39

CHRONOLOGICAL LIST OF WITNESSES

Myers, Peter C., Deputy Secretary of Agriculture, U.S. Department of Agriculture, Washington, DC.....	41
Prepared statement.....	44
Table 1—U.S. Export Commodities.....	50
Table 2—Average Net CCC Outlays on Price Support and Related Programs.....	50
Table 3—World Oilseed and Soybean Production and Trade.....	51
Table 4—U.S. Soybean Supply and Use.....	51
Table 5—U.S. Soybean Plantings and Related Acreage.....	52
Table 6—Regional U.S. Soybean Plantings.....	52
Table 7—Crop Acreage in the Delta and Southeast.....	53
Japanese Investment in Oilseed Production in Brazil.....	58
Table 1—Area, Production, and Yield of Soybeans in Brazil and Minas Gerais.....	60
Map—Minas Gerais, the state containing the project's primary area of Belo Horizonte.....	61
Table 2—Japan: Soybean and Soybean Meal Imports by Major Source, Calendar Years.....	62
Cost of a Soybean Marketing Loan for the 1988-89 Through 1990-91 Crops.....	73
Womack, Abner, W., codirector, Food and Agricultural Policy Research Institute [FAPRI], University of Missouri, Columbia, MO, Iowa State University, Ames, IA.....	74
Prepared statement.....	80
References.....	85
Table 1—U.S. Corn and Soybean Price, dollars per bushel.....	86
Table 2—U.S. and South American Soybean Area, Million Harvested Acres.....	86
Graph:	
Net Change Projection for U.S. Bean Acres.....	87
Net Change Projection for South American Bean Acres.....	87
Material submitted by Senator Cochran:	
Wilson, Ewen M., Assistant Secretary for Economics, letter of, to Hon. Thad Cochran.....	92
The Food Security Act and the Family Farm Act—a Comparison of Impacts and Objectives—Summary.....	93

IV

	Page
Bennett, Wayne, president, American Soybean Association, Lonoke, AR.....	101
Prepared statement	103
Graph:	
Share of World Soybean Meal Trade—U.S. vs. South America	112
Share of World Soybean Oil Trade—U.S. vs. South America	112
Niese, Rene, vice president, National Farmers Organization, Corning, IA.....	113
Prepared statement	116
Chicago Soybean Prices.....	119
National Farmers Union, prepared statement.....	120
Senter, David, National Director, American Agriculture Movement, Inc., prepared statement.....	123
Chart 1—Influence of Soybean Loan Rate and Program Changes on Soybean Prices.....	127
Chart 2—November 1986 Soybeans	127
Chart 3—November 1987 Soybeans	128
Chart 4—January 1988 Soybeans.....	128
Comparison of Farm Commodity Price Support Levels.....	129
Marine, C. Lockwood, vice chairman, National Soybean Processors Association, Fort Wayne, IN	130
Lindsay, James W., chairman, National Soybean Processors Association, CEO of Ag Processing Inc., Omaha, NE, prepared statement	131
Table 1—World Oilseed Production.....	141
Table 2—World Oilseed Crush.....	142
Table 3—World Oilseed Net Exports.....	143
Table 4—World Edible Oils and Fats Net Exports.....	144
Table 5—World Oilmeals Net Exports.....	145
Table 6—U.S. Soybeans: Changes in World Market Share.....	146
Table 7—U.S. Soybean Meal: Changes in World Market Share	147
Table 8—U.S. Soybean Oil: Changes in World Market Share.....	148
Table 9—World Soybean Oil Net Exports	149
Table 10—U.S. Soybean Oil Exports by Category.....	150
Table 11—EC-12: Significant Market Share Gains	151
Table 12—EC-12 Oilseed Production, Imports, and Crush—Only Rapeseed, Sunflowerseed, and Soybeans.....	152
Table 13—East and West Malaysia: Significant Market Share Gains.....	153
Table 14—Argentina: Significant Market Share Gains.....	154
Table 15—Brazil: Significant Market Share Gains.....	155
Table 16—China: Significant Market Share Gains.....	156
Table 17—Indonesia: Significant Market Share Gains.....	157
Table 18—India: Significant Market Share Gains.....	158
Table 19—U.S. Soybean Prices and Ending Stocks	159
Testimony Before the International Trade Commission on April 28, 1987, Appendix I	160
Letter of March 25, 1988, to Hon. John Melcher, supplement for the record.....	167
Anderson, Floyd, president, National Sunflower Association, Brockton, ND	169
Prepared statement	170
World Crop Production	174
EC-12 Oilseed Production.....	175
Graph 1—EC, World: Rapeseed Prices, Sunflowerseed Prices, and Soybean Prices.....	177
Graph 2—EC, Rapeseed Area, Yields, and Production	178
Graph 3—EC, Sunflowerseed Area, Yields, and Production.....	179
Graph 4—Note: This graph does not print. This graph does not pertain to the subject matter	176
Graph 5—EC-12: Oilseed Area and EC Intervention Price Indices	180
Graph 6—EC: Gross Return for Competing Crops.....	181
Graph 7—EC-12: Changes in Cropland Area	182
Graph 8—EC-12: Oilseed Production by Commodity.....	183
Graph 9—EC-12: Oilseed Production by Country.....	184
Greer, Thomas W., president, National Cottonseed Products Association, prepared statement.....	189
Whittington, Aven, chairman, National Cotton Council of America, prepared statement.....	191

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Martin, L. Sykes, president, Southern Cotton Growers, Inc., prepared statement.....	194
Greene, Robert W., president, American Cottonseed Association, Inc., prepared statement.....	196
Watts, George B., president, National Broiler Council, Washington, DC, prepared statement.....	198

SOYBEANS AND THE WORLD MARKET

FRIDAY, MARCH 18, 1988

U.S. SENATE, SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES AND THE SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,

Washington, DC.

The subcommittees met, pursuant to notice, at 9:40 a.m., in room 332, Russell Senate Office Building, Hon. John Melcher (chairman of the Subcommittee on Agricultural Production and Stabilization of Prices) presiding and Hon. David H. Pryor (chairman of the Subcommittee on Domestic and Foreign Marketing and Product Promotion).

Present or submitting a statement: Senators Melcher, Pryor, Heflin, Harkin, Conrad, Cochran, McConnell, and Bond.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. This joint subcommittee hearing will come to order.

We are meeting to discuss with the Department of Agriculture and a panel of producers that represent various commodity associations the question of an oilseeds marketing loan.

Senator Pryor's statement will be made a part of the record.

[The prepared statement of Senator Pryor, with factsheets and charts, and the prepared statement of Senator Conrad follow:]

OPENING STATEMENT OF
SENATOR DAVID PRYOR OF ARKANSAS

I am pleased that our subcommittees have seen fit to hold this hearing today on the question of whether the marketing loan program should be expanded to include soybeans.

When Thad Cochran and I convinced Congress two years ago to implement a marketing loan program for cotton and rice, we were convinced that we had reached an important cross-roads in the history of farm legislation. The success of this program for those two commodities has, I believe, proven this out.

Now it is time to extend this success to the rest of the farming community, and it is particularly important that we begin with soybeans.

American farmers are threatened by an anticipated record soybean harvest in South America. Our current policies have given Brazil and Argentina the incentive to plant more soybeans while more of our farmland remains idle.

Last year, the U.S. encouraged farmers to take 70 million acres of cropland out of production in an attempt to reduce world stocks and lift depressed prices.

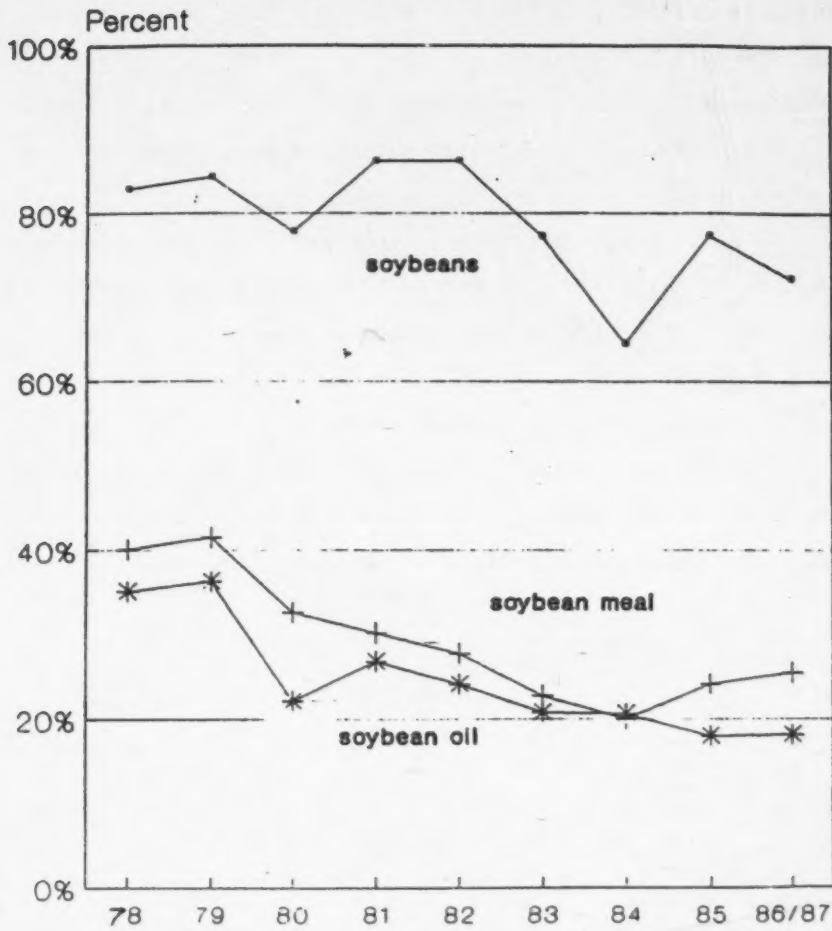
Instead, that move encouraged Brazil and Argentina to expand its soybean crops to take up the slack left by the United States. Some analysts now expect the South American crop, which was planted in the fall, to reach 28 million metric tons -- 14 percent more than last year.

A marketing loan program would put an end to these harmful, artificial and unintended forces before we lose our export markets permanently.

The 1985 farm bill gave the secretary of agriculture the authority to implement a marketing loan program for other crops at his discretion. I have been urging Secretary Lyng to do so, but in the absence of such action it is time for Congress to consider taking this step legislatively.

At this time, I would like to submit for the record a number of fact sheets and charts which underscore the severity of the current situation faced by American soybean farmers.

THE PROBLEM: Declining Share of World Export Market



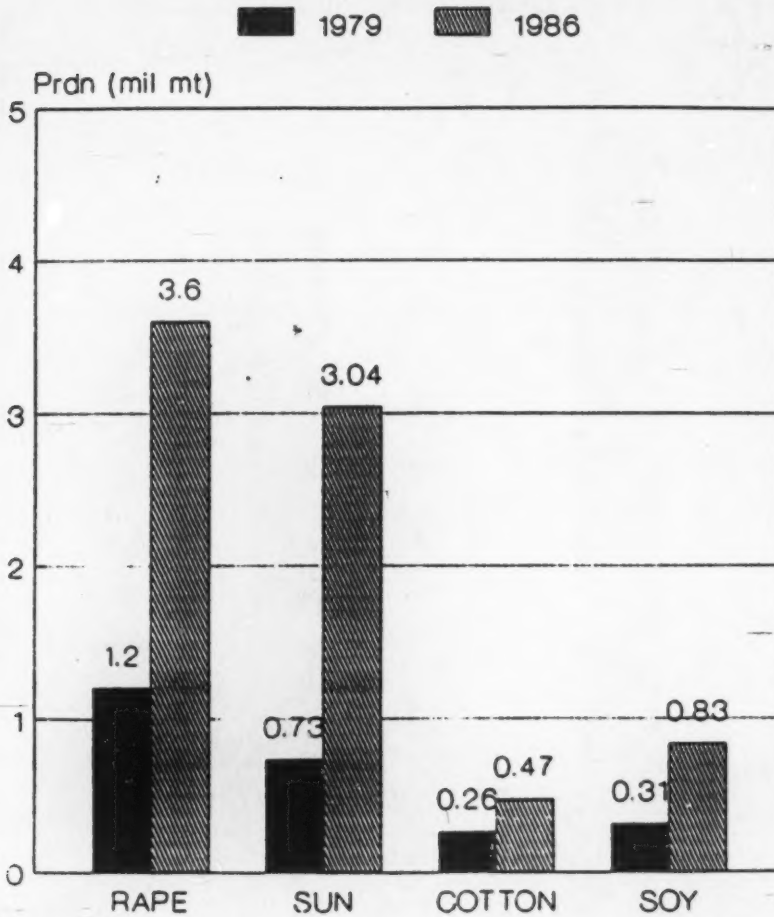
MARKET SHARE LOSS IMPACT

- 1 point loss of market share at today's world soybean export volume is equal to 20 mil bushels
- If the U.S. had maintained its 1979 market share of soybean trade U.S. exports (beans and product equiv.) would total over 290 mil. bu. greater than currently projected (1,272 mil. vs. 980 mil. bu.)
- That's nearly equivalent to the entire est. 1987 production for the State of Iowa!

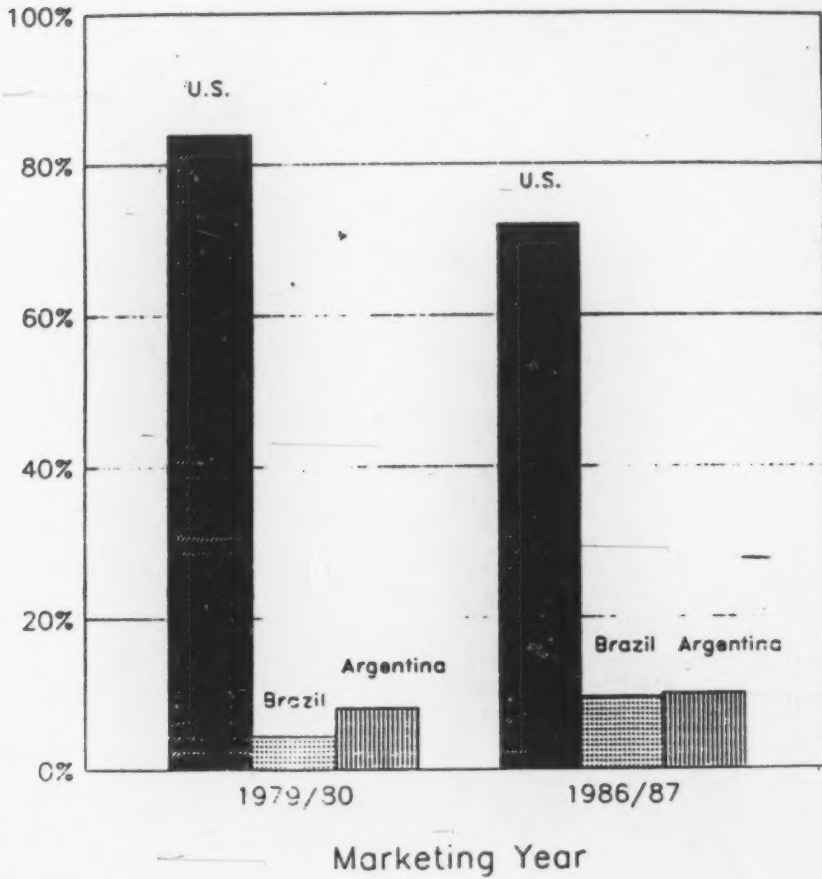
FACTORS AFFECTING U.S. SOYBEAN MARKET SHARE

- Government Policies of Foreign Competitors and Importers
- U.S. Government Farm Commodity Programs
- Relative Cost of Production Processing, Transportation and Storage
- International Trade, Financial and Political Factors
- Quality & Service

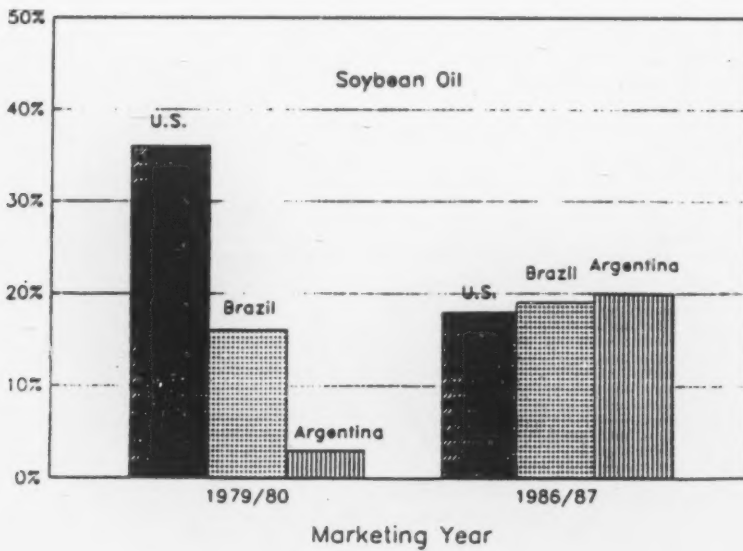
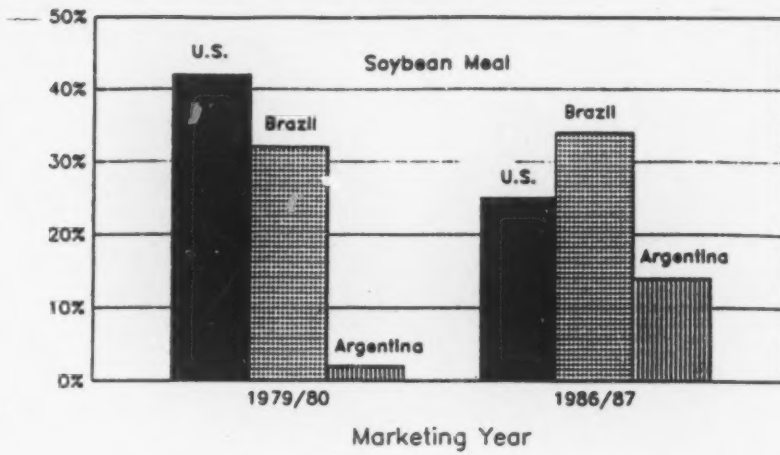
SUBSIDIZED DOMESTIC PRODUCTION UNDERMINING U.S. SOY EXPORTS TO THE EEC



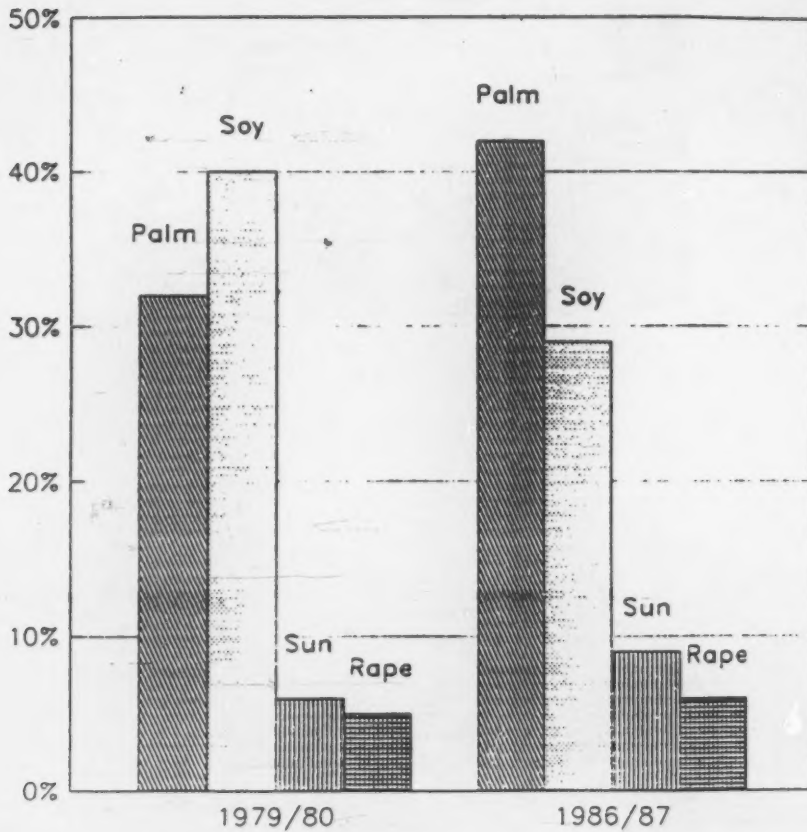
SHARE OF WORLD SOYBEAN EXPORT MARKET



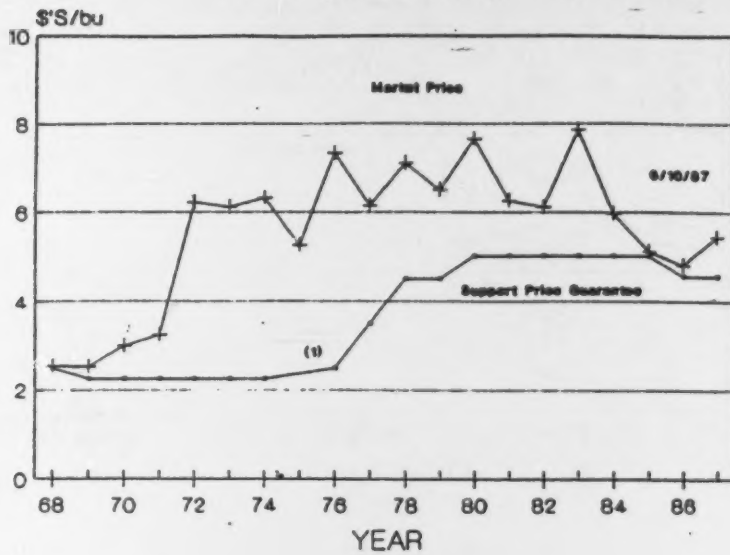
SHARE OF WORLD SOYBEAN MEAL & SOYBEAN OIL



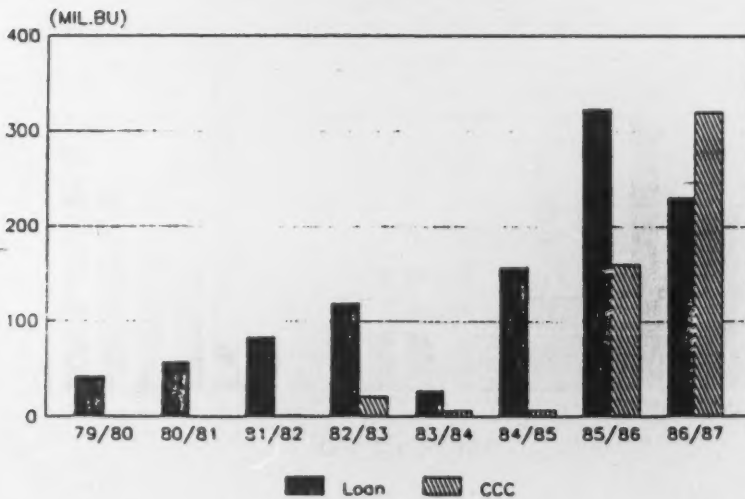
MARKET SHARE OF WORLD VEGETABLE OIL EXPORTS



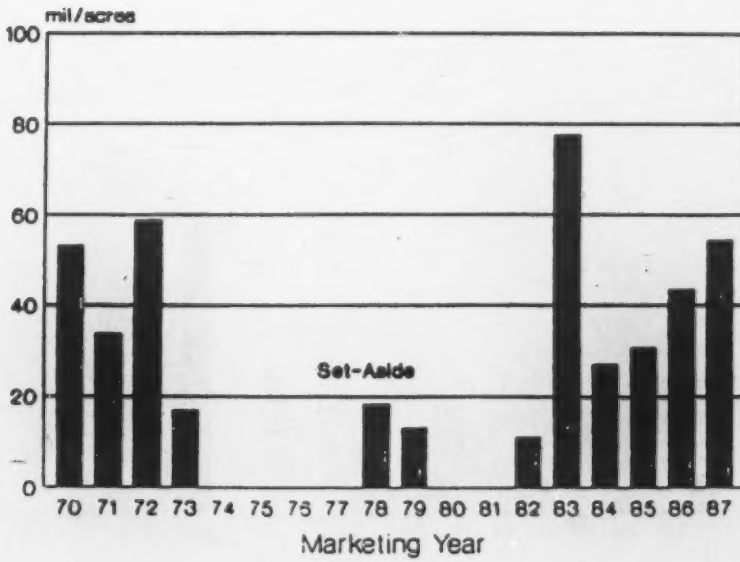
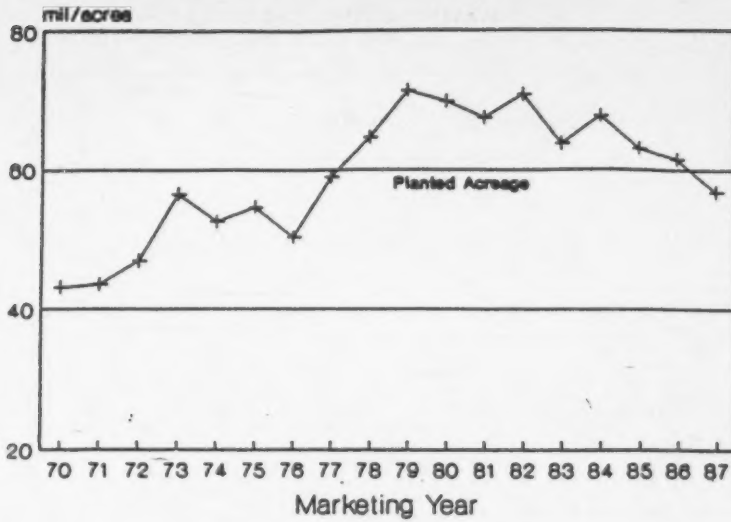
U.S. Non-recourse Soybean Loan
Program Provides "Insurance" for
foreign expansion....



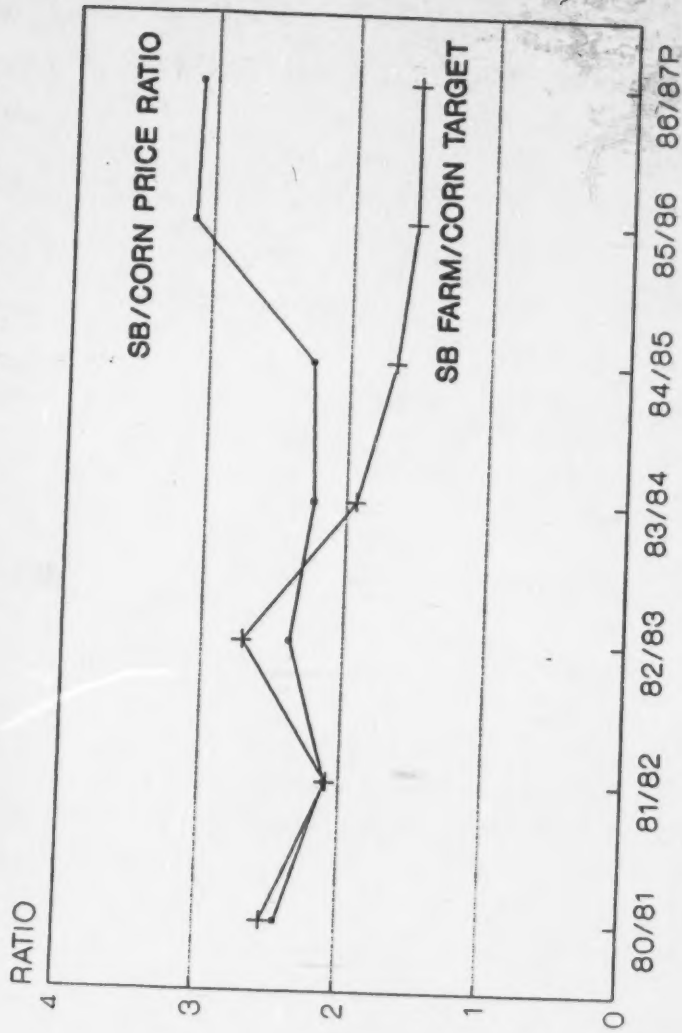
...AND SOMETIMES FORCES U.S. TO
STOCKPILE WHILE COMPETITORS SELL



**TOTAL SET-ASIDE ACREAGE 1970-1987
VERSUS SOYBEAN PLANTED ACREAGE**



FEED GRAINS PROGRAM CAUSED ABERRATION IN TRADITIONAL SOYBEAN/CORN PRICE RATIO



MARKETING YEAR

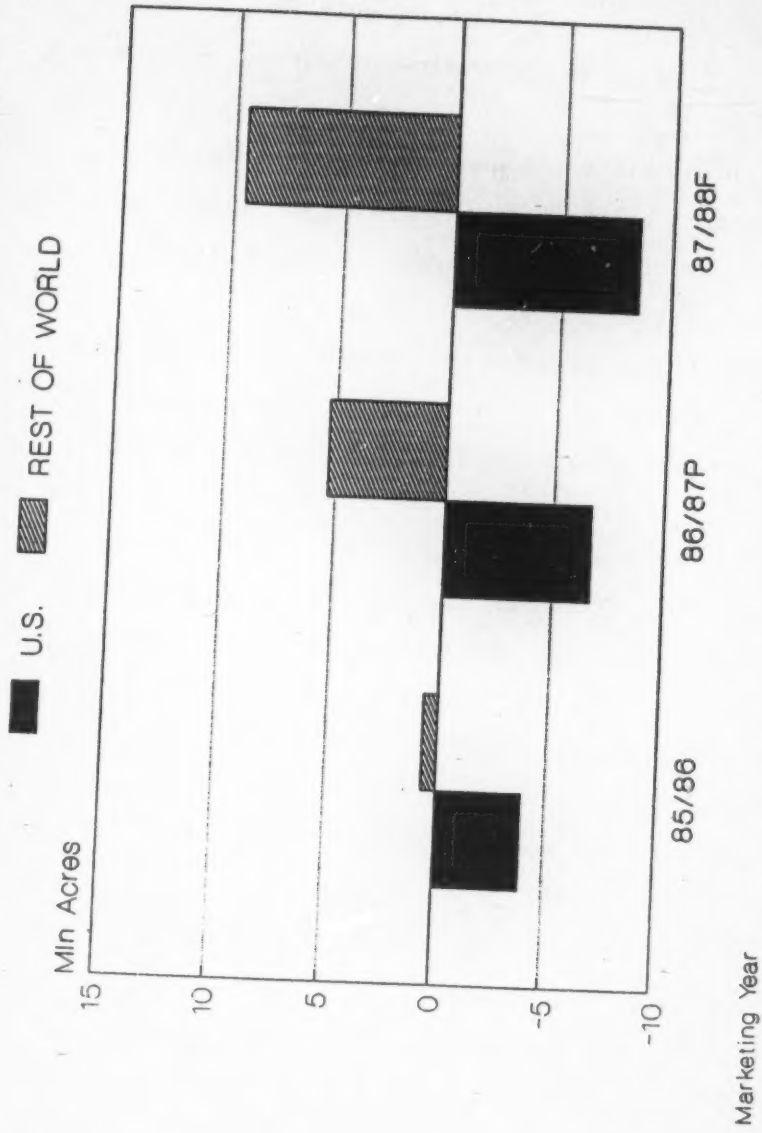
SOUTH AMERICAN OILSEEDS COMPETITORS PLANNING MAJOR EXPANSION THIS FALL

	1986/87 /1	1987/88F /2	% CHANGE
	(MLN ACRES HARVESTED)		
BRAZIL, SOYBEANS	23.1	25.2	+9.0%
ARGENTINA, SOYBEANS	9.0	9.6	+6.5%
SUNFLOWER	5.4	6.5	+20.0%
TOTAL BRAZ./ARG.	37.5	41.3	+10.1%

1/ USDA, FOREIGN AGRICULTURAL SERVICE

2/ SAFRAS & MERCADO (BRAZIL); ARGENTINE PLANNING BOARD

U.S. SOYBEAN ACREAGE HAS BEEN DECLINING
WHILE REST OF WORLD INCREASES ACREAGE



SENATOR KENT CONRAD

Soybeans & Sunflowers and the World Market

Chairman Melcher, I want to thank you for holding these very important hearings on the status of oilseed production in the U.S. and our competitiveness in world markets.

I would like to point out several issues of special concern to North Dakota. First, although North Dakota farmers are planting a growing number of acres to soybeans (about 500,000 acres last year), North Dakota's climate is not as well suited to soybean production as to sunflower production. Sunflowers thrive in the dryer climate and shorter growing season. In fact, sunflowers are the oilseed crop of choice throughout the dryer western edge of the plains from North Dakota to Texas.

Sunflowers and soybeans compete in the same oil markets. During the past 7 years as prices for oilseed crops have fallen and South American and subsidized EC production have increased, soybean acres in the U.S. have declined 13 million acres--about 20 percent. Sunflower acres have dropped from a high of about 6 million to 1.2 million acres or an 80 percent reduction over the same period. Together, oilseeds have lost nearly 18 million acres to foreign competition.

SENATOR CONRAD

Page 2.

The reason for the large decline in U.S. production in the face of rapidly increasing world demand for oilseeds is twofold: First, the European Community has stimulated a rapid expansion in their production through huge subsidies equal to two and three times current market prices -- over \$15 per bushel for soybeans and \$22 per hundred-weight for sunflowers. Second, the U.S. farm program has stimulated production in South America by establishing a world price floor on soybeans. As a consequence, the U.S. is losing its market in Europe and the world.

For sunflower producers, the problem is particularly severe. Unlike soybeans for which there exists a USDA loan program, sunflowers are totally dependent on the market. Even though sunflowers and soybeans compete in the same markets, the lack of protection for sunflower producers has resulted in an 80 percent reduction in sunflower production. Current production is at the minimum level necessary to sustain an industry. As American oilseeds became less competitive in the 1980s, crushing plants for both soybeans and sunflowers closed. For sunflower processors and sellers the falling

SENATOR CONRAD

Page 3.

supply of sunflowers forced them to reduce expenditures for product and market development. It does not make sense to develop a market for a product which does not have a stable supply of raw material. As a consequence, the demand for and price of raw sunflowers dropped even further in relation to other oilseeds.

Many will argue that no more crops should be added to the farm programs so that farm program costs can be reduced. However, that has not been the case in North Dakota. As sunflower acres have declined by two million acres, program crop acres have increased by an equal amount. Barley acres are up over one million acres, corn acres are up two hundred thousand acres, soybeans are up by two hundred-fifty thousand acres, and wheat program bases are up by over five hundred thousand acres.

The maximum cost of keeping acres in sunflowers is about \$20 to \$30 per acre at a loan level of 9.0 cents per pound. This compares to about \$50 per acre for wheat and \$90 per acre for

SENATOR CONRAD

Page 4.

corn. The sunflower program would actually save USDA program costs. In addition, it would allow farmers to maintain a normal rotation of wheat, sunflowers, and other crops in order to reduce insect and disease problems.

I should note that confectionary sunflower production will not be covered under marketing loan. Confectionary sunflower production is small, but has increased steadily as the demand for sunflower seeds as a healthy snack food have increased.

Again, thank you Mr. Chairman for calling these very important hearings. Not only is a marketing loan important for North Dakota, it is important to the competitive position of this country in world markets. It is critical that we act soon. A marketing loan program for oilseeds will return U.S. oilseed producers to the competitive position of the 1970s.

Senator MELCHER. First of all, I would like to recognize Senator Heflin for an opening statement.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. Mr. Chairman, I would first like to thank you for holding this joint hearing and, as I understand, it is a joint hearing with the Subcommittee on Domestic and Foreign Marketing and Product Promotion, chaired by the able Senator from Arkansas, Senator Pryor. Both of you have been leaders in thought given to addressing the problems of oilseeds and particularly the needs of soybean farmers of America.

I know that we will hear some excellent testimony today, and feel that the record that will be compiled will present an accurate picture of the challenges and hardships that soybean farmers and the soybean industry in my home State of Alabama and throughout America have faced in the last 10 years, and will face in the years to come. I am hopeful that the testimony and information which will be presented will help to convince other Members of the Senate, and the Congress as a whole, of the urgent need for quick action on behalf of our Nation's soybean farmers and the American soybean industry.

In the last decade, U.S. soybean acreage has declined by roughly 18 percent—from 71.4 million acres in 1979, to only 58.7 million acres in 1987. Soybean acreage in my home State of Alabama has declined by a much higher rate during this period—falling from 2.2 million acres to only 500,000.

I believe that this decline in soybean acreage is representative of the hardships soybean farmers have faced in the last 10 years. There just has not been money to be made by planting soybeans.

The soybean program, such as it is, with its nonrecourse loan, has served as a protective, guaranteed price umbrella for foreign competitors. While it provides protection for the American soybean producer, it has also encouraged tremendous soybean production overseas.

In past years, under this nonrecourse loan program, the United States has become the world's storehouse for all surplus production while our foreign competitors have sold their soybeans onto the world market.

Because of this protection, farmers in Brazil and Argentina have invested the money necessary to clear all sorts of land, including pastureland, to plant soybeans without the risk of world market prices falling below their break-even price.

Although soybean prices have risen in the last several months, I believe that the problems of the last decade could easily recur. I feel that the rise in soybean prices has been due, in part, to the fall in the value of the U.S. dollar. In order to guard against hardships and conditions that have plagued the soybean farmers of America in the last decade, responsible and responsive legislation must be adopted by Congress, and signed into law by the President.

Accordingly, to accomplish this goal, I was joined by six other members of the Senate Agriculture Committee in introducing a

bill, S. 2135, that would mandate the implementation of a marketing loan for the soybean farmers of Alabama and America.

The mandated soybean marketing loan that we proposed would establish a price support level of no less than \$5.02 per bushel for the 1989 and 1990 crop-years. While this program would not be a cure-all, I believe it would go a long way in helping America's soybean farmers to compete against the unfair practices of foreign producers, and would help to raise the price of soybeans, ultimately increasing soybean acreage and production.

I look forward to working with my colleagues on the committee, other Members of the Senate, and representatives of the soybean industry, and other oilseed segments of our economy, and other interested parties in the future to work out any difficulties they may have with our bill, and in crafting any other legislation which would address the problem that has plagued the Nation's soybean farmers in the past and the problems that may be faced in the future.

Again, I thank both Senator Melcher and Senator Pryor for holding this important hearing.

Senator MELCHER. Thank you, Senator. Senator Bond.

**STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S.
SENATOR FROM MISSOURI**

Senator BOND. Mr. Chairman, thanks so much for holding this hearing. I hope that the members of this committee understand the seriousness of the situation being faced by our domestic soybean producers. While many of us have been urging our foreign trading partners and other soybean producing countries to allow their producers to compete on an even playing field, we have not seen that come about. However, right here in our own country we have created farm programs which do not allow soybean producers to compete on an even playing field. I fear that perhaps continue is a magic word, with respect to soybean producers. U.S. production continues to decline, foreign production continues to expand, and we continue to allow our competitors to capture the growth in global demand. That is simply not acceptable.

Mr. Chairman, according to the American Soybean Association, if the United States had maintained its 1979 market share of soybean trade, exports would be 348 million bushels more than they were in 1986. At \$6 per bushel, U.S. farmers have lost \$2.2 billion income. It is staggering to see figures such as this which directly conflict with the theme of the Food Security Act of 1985—increased competitiveness. While I believe we have done an admirable job of developing export programs for feed grains, cotton and rice, our soybean exports have been crushed—literally.

I believe that a \$5.02 marketing loan is an excellent starting point. Once again, I commend Senator Heflin and I am proud to be a cosponsor with him on the marketing loan legislation. I look forward to working with him and the other members of this committee on it. I particularly congratulate him for a very compelling statement today.

Mr. Chairman, on a hometown note, I am very pleased to see so many familiar faces in the audience today. It is a special pleasure

to welcome Missourians to Washington. Some Missourians have been moving to Arizona, but we are delighted to have these people coming in to Washington today, and we are privileged to have the testimony from two outstanding Missourians. First, we claim the Deputy Secretary of the U.S. Department of Agriculture, our good friend Peter Myers. We are very proud of the work Peter has done and we think he has been outstanding in his work on behalf of American agriculture. Secondly, I am pleased to see Dr. Abner Womack with us today. He is the Co-Director of the Food and Agricultural Policy Research Institute at the University of Missouri.

I have worked with FAPRI for a long time. I can tell you FAPRI is a valuable asset to not only our State, but to the entire Nation, and I think it is an excellent investment of the modest sum that we commit to providing objective, informative research.

Gentlemen, it is very good to be able to welcome you today. I would like to thank all of the distinguished witnesses for appearing today and Mr. Chairman, I have prepared a much longer statement which, if no one objects, I would prefer to submit for the record, rather than read it.

Senator MELCHER. It will be made part of the record.

[The prepared statement of Senator Bond follows:]

STATEMENT BY SENATOR CHRISTOPHER S. BOND (R.MO.)

Mr. Chairman, first of all I would like to thank you for scheduling this morning's hearing. I understand that conferees to last year's budget reconciliation bill promised to hold hearings on this subject, however, I would hope that members of this Committee understand the seriousness of the situation being faced by our domestic soybean producers. Many of us have urged our foreign governments to allow their producers to compete on an even playing field. However, right here in our own country we have created farm programs which do not allow soybean producers to compete on an even playing field. Maybe **continue** is the magic word -- U.S. production **continues** to decline, foreign production **continues** to expand and we **continue** to allow our competitors to capture the growth in global demand.

As we all know, the U.S. soybean industry is of vital importance to our agriculture economy, the 1987 crop valued at over \$10 billion. In fact, the magnitude of this industry makes it of national importance -- not only to more than 400,000 soybean producers but to processors, livestock producers and consumers.

Over the past few months, we have all been pleasantly surprised by the strength of bean, oil and meal prices. While it is a pleasure to see prices above the cost of production, government stocks falling rapidly and continued growth in export markets, I fear we must look at the longer term. It is high time that Congress address the inequities of existing farm programs and enact legislation which will allow farmers to consider soybean production as a viable alternative to traditional program crops. Currently, producers seem to be caught somewhat in the middle -- prices have not gone high enough to encourage a great deal of additional production yet they are at a point where producers are hesitant to endorse legislative changes which may cause short term price aberrations.

My home state of Missouri, which ranks third in the nation in soybean production, has been greatly affected by these alarming nationwide trends. In 1985, Missouri produced over 177 million bushels on 5.23 million acres. In 1987, we produced 54 million bushels on 4.8 million acres. Acreage alone dropped more than 8 percent.

Mr. President, the success of this extremely important sector of our agricultural economy is largely dependent upon the ability to compete in international markets. On one hand, our ability to compete continues to be hampered by large foreign subsidies which artificially distort international market fundamentals. On the other, our domestic policies, or lack of, have decreased both production and exports. Exports alone have fallen from 930 million bushels in 1981 to 757 million bushels last year.

Mr. Chairman, according to the American Soybean Association, if the United States had maintained its 1979 market share of soybean trade, exports would be 348 million bushels more than they were in 1986. At \$6.00 per bushel, U.S. farmers have lost \$2.2 billion income. It is staggering to see figures such as this

which directly conflict with the theme of the Food Security Act of 1985 -- increased competitiveness. While I believe we have done an admirable job of developing export programs for feed grains, cotton and rice, our soybean exports have been crushed -- literally.

I am not suggesting that we should decrease target prices or increase loan rates more than what has already been built into the Farm bill. I am, however, advocating a program which guarantees a minimum level of income support, enhances our competitiveness in world markets and sends a signal to our competitors that we will no longer provide a floor for world market prices. I believe that a \$5.02 marketing loan is a good starting point. Once again, I commend Senator Heflin for introducing marketing loan legislation and I look forward to working with him on this issue.

Mr. Chairman, I am pleased to see so many familiar faces in the audience today. It is always a special pleasure to welcome Missourians to Washington. Today, we are privileged to have two Missourians presenting testimony. First, it is an honor for Missouri to claim the Deputy Secretary for the U.S. Department of Agriculture, Mr. Peter Meyers. We are very proud of Peter and feel he has done an outstanding job on behalf of American agriculture. Secondly, I am pleased to see Dr. Abner Womack is with us this morning. Dr. Womack is the Co-Director of the Food and Agriculture Policy Research Institute at the University of Missouri. Again, we think FAPRI is a valuable asset to not only our state, but the entire nation. Gentlemen, it is very good to see you and welcome you to the Committee.

In closing, I would like to thank all of the very distinguished witnesses for appearing today and I look forward to hearing their testimony.

Senator BOND. Thank you, sir.
 Senator MELCHER. Senator Cochran.

**STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM
 MISSISSIPPI**

Senator COCHRAN. Mr. Chairman, I have an opening statement which I would ask be included in the record, and congratulate you for having the hearing. I am looking forward to hearing the testimony of the witnesses.

Senator MELCHER. Thank you, Senator.
 [The prepared statement of Senator Cochran follows:]

PREPARED STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

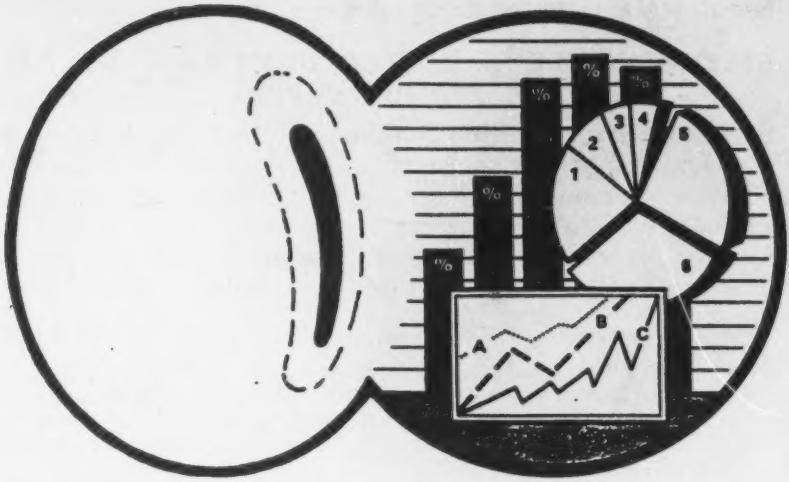
Mr. Chairman, I am glad the subcommittees were able to schedule this joint hearing because I believe it sends a strong signal that there is broad interest in and support for the U.S. soybean industry. I believe that any effective solution to the challenges facing this industry will balance the global competitive demands of production and marketing.

To address the global competitive marketing demands, I know the soybean industry is on record supporting the addition to their base program of the marketing loan feature. I support them in this effort. Twice in the 99th Congress, again in the 100th Congress, I introduced legislation that would require a soybean marketing loan program. On January 13, 1987, I introduced S. 308, the Soybean Marketing Act of 1987, that would require a \$5.02 marketing loan each crop year—1987 through 1990.

Mr. Chairman, although it is not an original idea of mine, I have found that it is helpful to attempt to accurately define the problem before trying to solve it. In this regard, I believe the American Soybean Association (ASA) has developed very helpful data. I request that a set of charts and graphs developed by ASA's Economics Department be included in this hearing record. This data indicates that at least part of the soybean industry problem is not being able to retain its historical market share as world trade increases.

Mr. Chairman, I look forward to hearing from today's witnesses.

[Charts and graphs submitted by Senator Cochran and the prepared statement of Senator McConnell follow:]



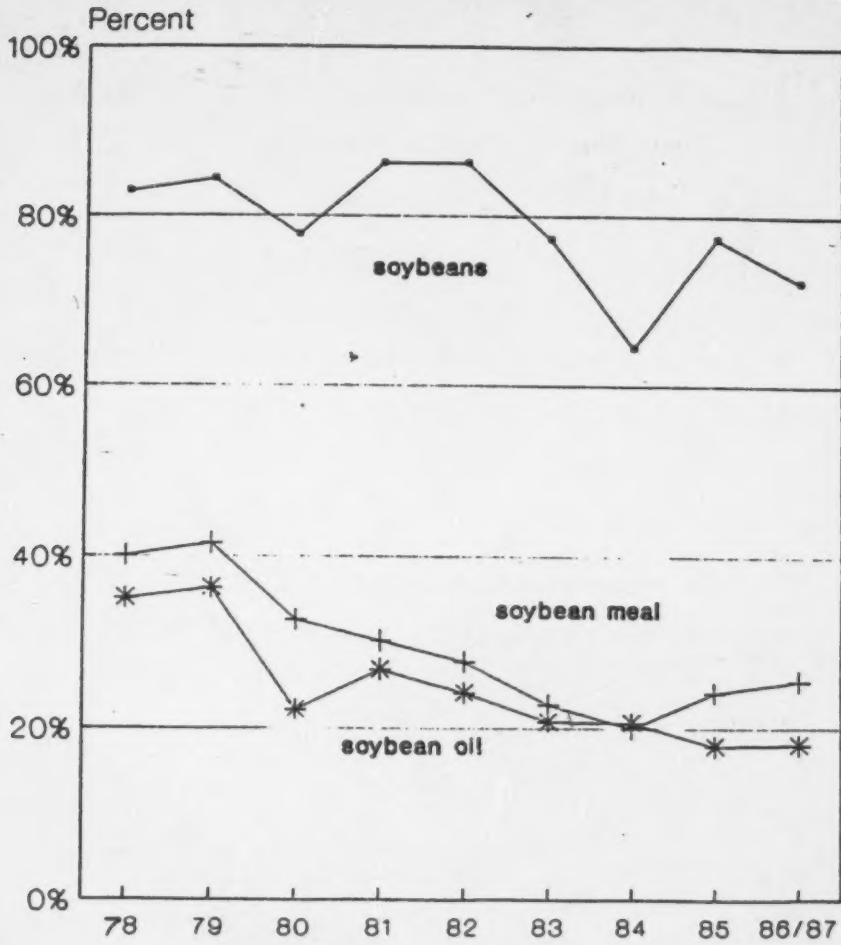
THE SOYBEAN CHALLENGE...

...Regaining Market Share



American Soybean Association
ECONOMICS DEPARTMENT

THE PROBLEM: Declining Share of World Export Market



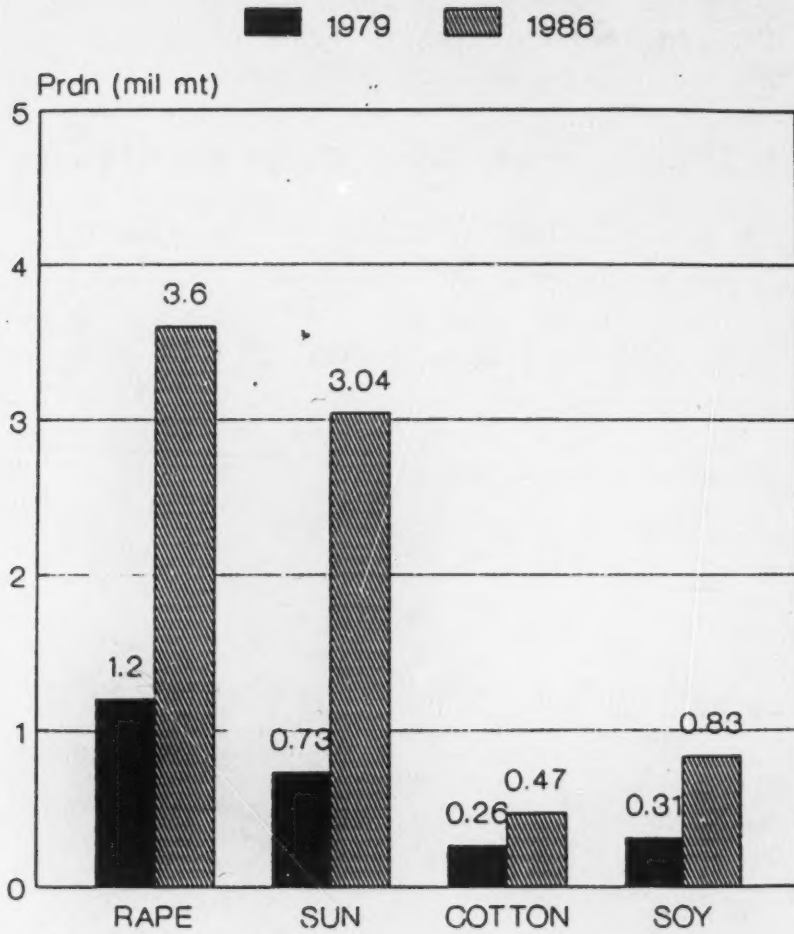
MARKET SHARE LOSS IMPACT

- 1 point loss of market share at today's world soybean export volume is equal to 20 mil bushels
- If the U.S. had maintained its 1979 market share of soybean trade U.S. exports (beans and product equiv.) would total over 290 mil. bu. greater than currently projected (1,272 mil. vs. 980 mil. bu.)
- That's nearly equivalent to the entire est. 1987 production for the State of Iowa!

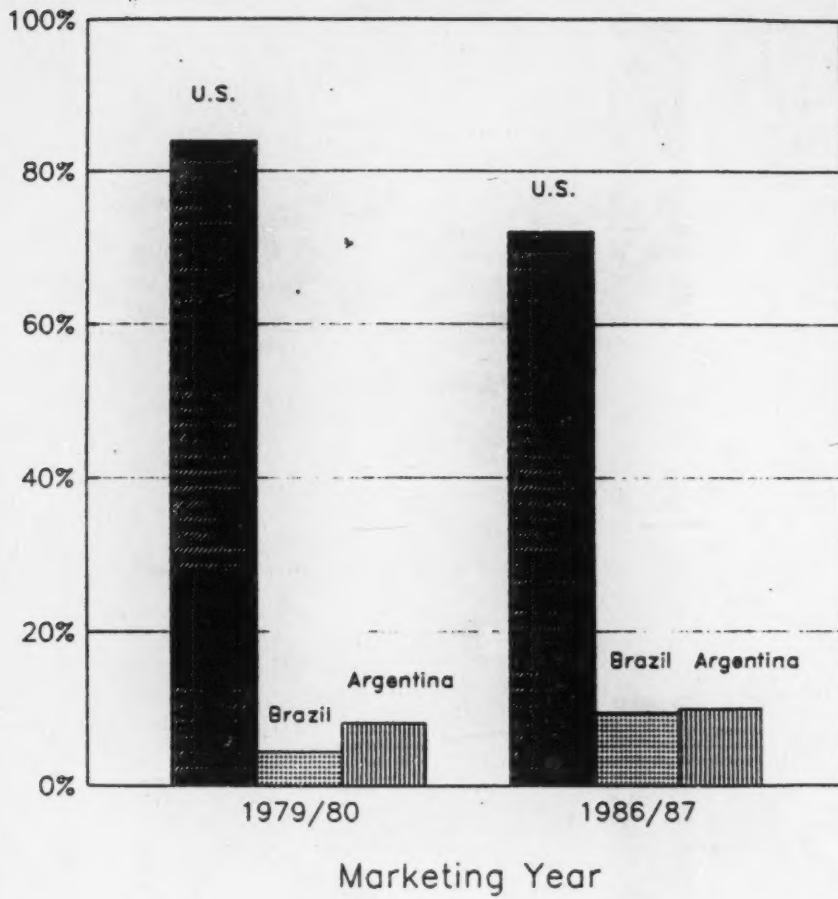
FACTORS AFFECTING U.S. SOYBEAN MARKET SHARE

- Government Policies of Foreign Competitors and Importers
- U.S. Government Farm Commodity Programs
- Relative Cost of Production Processing, Transportation and Storage
- International Trade, Financial and Political Factors
- Quality & Service

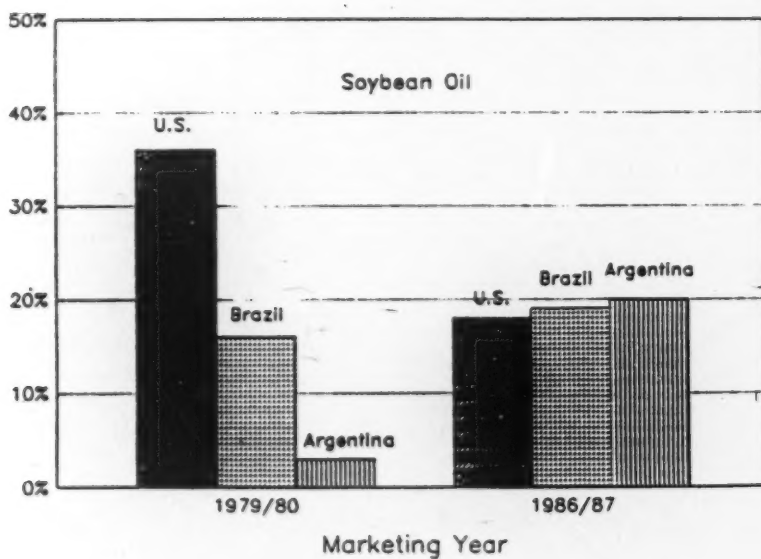
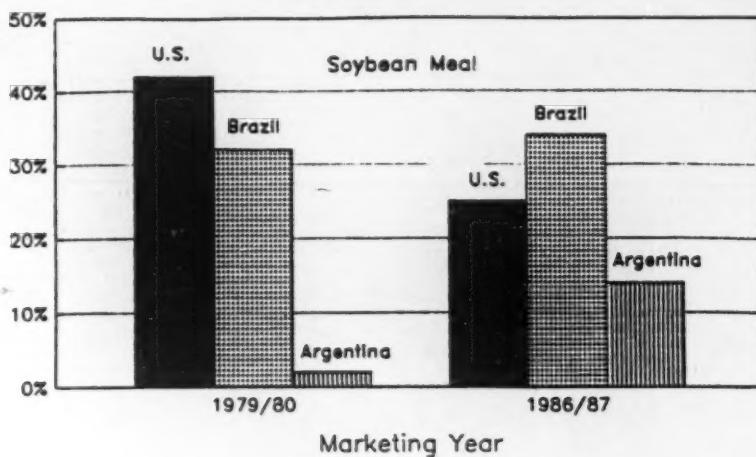
SUBSIDIZED DOMESTIC PRODUCTION UNDERMINING U.S. SOY EXPORTS TO THE EEC



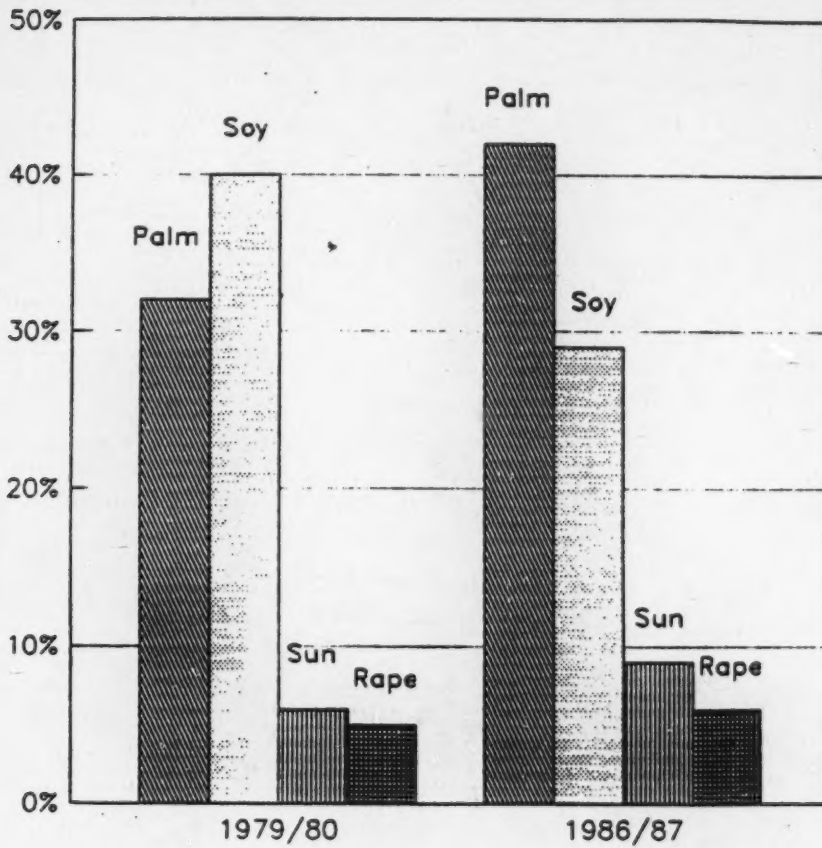
SHARE OF WORLD SOYBEAN EXPORT MARKET



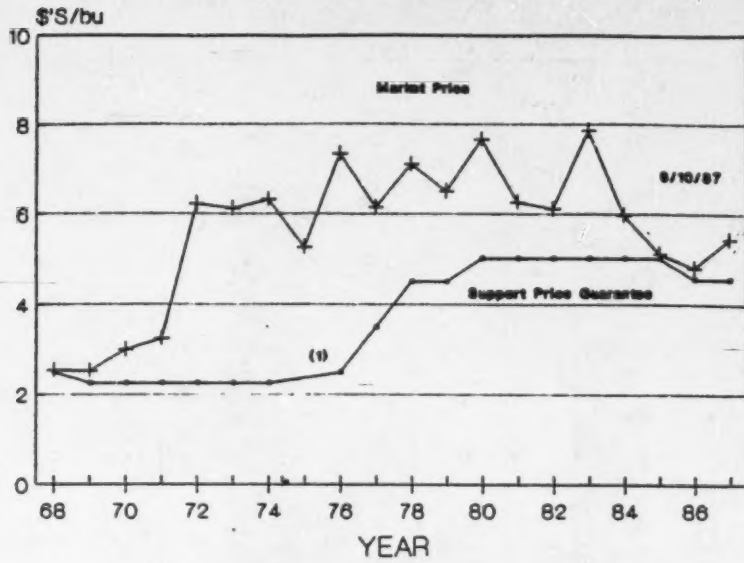
SHARE OF WORLD SOYBEAN MEAL & SOYBEAN OIL



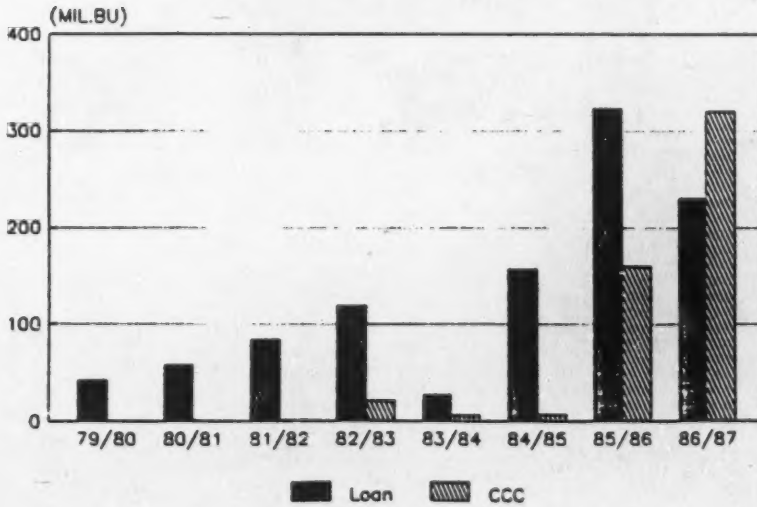
MARKET SHARE OF WORLD VEGETABLE OIL EXPORTS



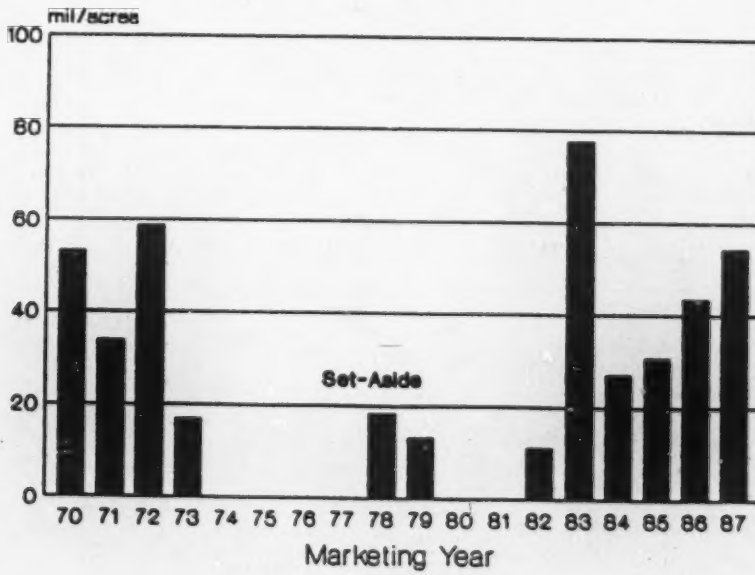
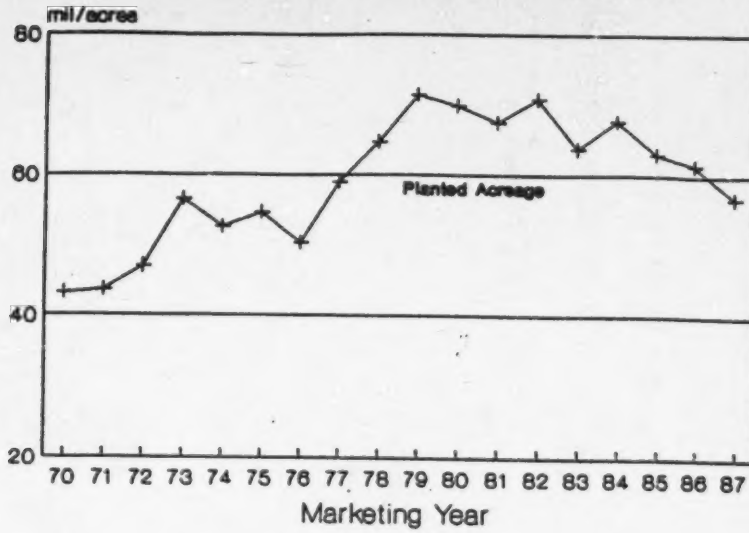
U.S. Non-recourse Soybean Loan
Program Provides "Insurance" for
foreign expansion....



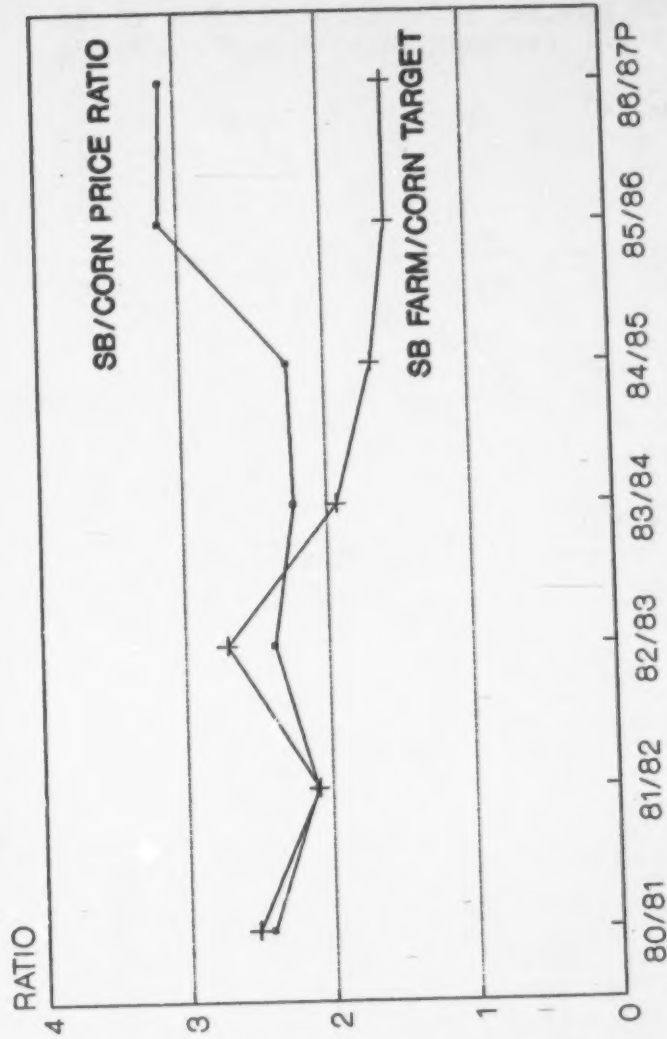
...AND SOMETIMES FORCES U.S. TO
STOCKPILE WHILE COMPETITORS SELL



TOTAL SET-ASIDE ACREAGE 1970-1987 VERSUS SOYBEAN PLANTED ACREAGE



FEED GRAINS PROGRAM CAUSED ABERRATION IN TRADITIONAL SOYBEAN/CORN PRICE RATIO



MARKETING YEAR

SOUTH AMERICAN OILSEEDS COMPETITORS PLANNING MAJOR EXPANSION THIS FALL

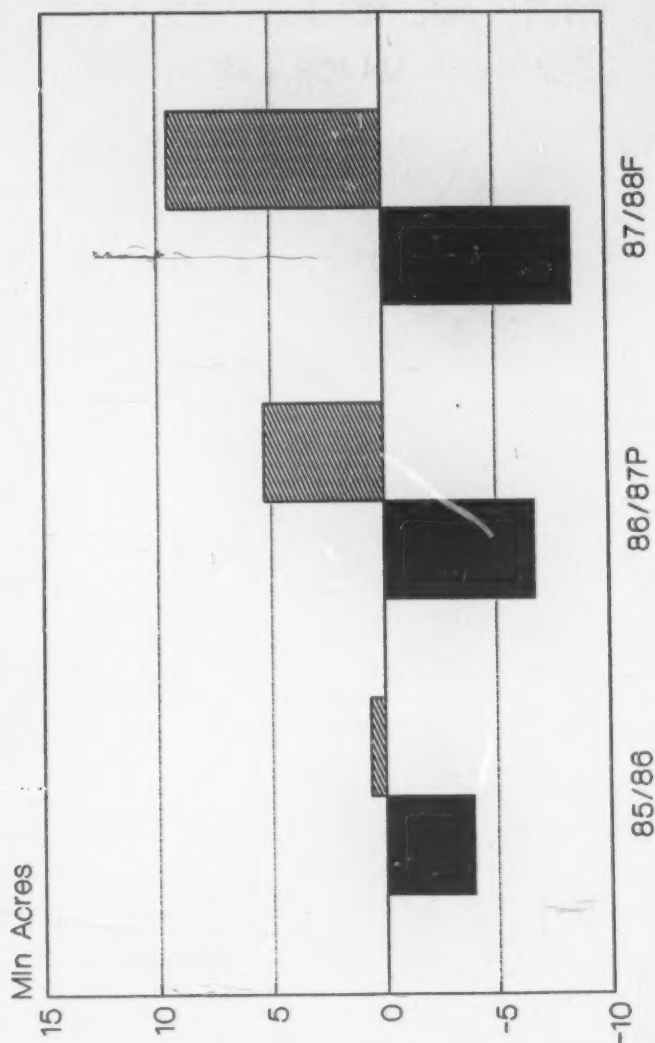
	1986/87 /1	1987/88F /2	% CHANGE
	(MLN ACRES HARVESTED)		
BRAZIL, SOYBEANS	23.1	25.2	+9.0%
ARGENTINA, SOYBEANS	9.0	9.6	+6.5%
SUNFLOWER	<u>5.4</u>	<u>6.5</u>	<u>+20.0%</u>
TOTAL BRAZ./ARG.	37.5	41.3	+10.1%

1/ USDA, FOREIGN AGRICULTURAL SERVICE

2/ SAFRAS & MERCADO (BRAZIL); ARGENTINE PLANNING BOARD

U.S. SOYBEAN ACREAGE HAS BEEN DECLINING WHILE REST OF WORLD INCREASES ACREAGE

■ U.S. ▨ REST OF WORLD



Marketing Year

Statement of Senator Mitch McConnell

Subcommittee on Ag Production and Stabilisation of Prices

March 18, 1988

Mr. Chairman:

I would like to begin by commending the distinguished Senator from Montana for calling this hearing to discuss soybeans and the world market.

I am pleased to say that I am an original cosponsor of a bill recently introduced by my good friend from Alabama, Senator Heflin, S. 2135. This bill mandates a marketing loan for soybeans beginning in the 1989 crop year at a level of \$5.02. The idea of a marketing loan is one whose time has come--it has proven itself effective for cotton and rice producers, as well as the American taxpayers.

I find it unfortunate that the Department of Agriculture has been less than responsive to the needs of our nation's soybean growers. The authority exists for a soybean marketing loan, yet the Secretary refuses to exercise that authority. I have no doubts that the Secretary of Agriculture is well intentioned, but I think USDA's soybean policy is misguided and detrimental to this nation's future competitive position in the world soybean market.

Our current soybean program--a non-recourse loan--essentially promotes foreign competition. Argentina and Brazil, with the aid of capital from places like Japan or the World Bank, are guaranteed a price for their soybeans, and are assured a guaranteed return on their investment in expanded soybean production.

The numbers on what is happening in South America are sobering. Acres committed to soybean production in the United States have fallen drastically while Latin American production has skyrocketed. We have lost substantial market share in both soybean oil and soybean meal to Argentina and Brazil. And there is little indication that this trend will reverse itself.

Soybean prices are as strong as they have been in several years. I think we should not be lulled into a sense of complacency by the current rosy situation. High prices encourage increased foreign production--and once our competitors have made their fixed investments (ports, roads, markets, land clearing, harvesting equipment, etc..) the acres will remain in production with little response, for the most part, to price. I think this should give us all cause for concern, especially those of us charged with the responsibility of establishing and overseeing our nation's agricultural policy.

I think this is a time for leadership in the soybean industry. The marketing loan is a viable and necessary policy alternative which will ensure that our farmers are given the opportunity to compete on the world market. I look forward to hearing the testimony of today's witnesses, and hope that the Senate Agriculture Committee will move swiftly towards reporting out a marketing loan for America's soybean producers.

I thank the Chair.

Senator MELCHER. Senator Pryor has a conflict this morning and cannot be with us. I think he is chairing a committee hearing for the Finance Committee this morning.

Our first witness will be the Deputy Secretary of Agriculture, Peter Myers. We are glad to have you with us this morning, Pete.

STATEMENT OF PETER C. MYERS, DEPUTY SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. MYERS. It is good to be here, Senator.

I do appreciate the opportunity to appear before you. As a soybean farmer myself for 28 years, I have somewhat of a latent vested interest in what we are doing and of course, as the Deputy Secretary, I have a keen concern of what we are doing.

I have a long written statement that I would like to submit for the record and then highlight my written statement verbally.

Senator MELCHER. Your entire statement will be made part of the record. Please proceed.

MARKET TRENDS

Mr. MYERS. The history of the U.S. soybean market, until recently, has been one of sustained growth. In 1930, soybeans were a little grown crop, with only 1 million acres for harvest. In comparison, wheat and corn accounted for 170 million acres. However, area planted to soybeans increased sharply to 71 million acres in 1979 and again in 1982, while wheat and corn acreage changed little, remaining in the 160 million acre range. Much of this expansion was on erodible land and in some cases on converted wetlands.

During the 1960's and 1970's, U.S. soybean plantings rose by 50 million acres as world trade in soybeans and soybean products—meal and oil—increased dramatically. Unhampered by program production constraints, U.S. farmers benefited from this global trade growth.

Since 1982, U.S. dominance of the world soybean market has slipped, while our market share in soybean meal has continued a decline that started in the late 1960's. There are a number of reasons for this. First, the global demand for high-protein feedstuffs weakened in the early 1980's and has only recently started to recover. Second, there has been strong competition from South America. Third, there has been a major increase in the foreign production of vegetable oils, especially palm oil and more recently, rapeseed. Since 1982, world production of soybeans has risen 8 percent while palm kernel and rapeseed production have each increased about 50 percent. Fourth, the strength of the dollar in the early 1980's inhibited the competitive position of U.S. soybeans, particularly vis-a-vis our customers in Europe and Japan. Fifth, the European Community has started subsidizing oilseed production, jeopardizing our access to that market. The EC's minimum price for soybeans is now about \$17 a bushel.

World trade in soybeans and soybean meal, measured in soybean equivalents, is expected to total 61 million metric tons in the current 1987-88 marketing year. U.S. exports will account for about

28 million tons, compared with 33 million in 1982 and 11 million in 1967.

U.S. SOYBEAN ACREAGE

Turning to U.S. soybean acreage, since 1982, the area devoted to growing soybeans in the United States has declined by 13 million acres.

The decline in U.S. acreage and production is largely due to the attractiveness of Federal programs for other crops. For example, the feed grain program has caused acres to be shifted away from soybeans to feed grains. Very few farmers elected to stay out of the corn program and not utilize their full feed grain acreage base. Therefore, the acreage tied up in the corn program—that is, acres planted to corn plus acres required to be idled—has increased by over 5 million acres since 1982. Soybean acreage in the Corn Belt decreased 2 to 3 million acres during the same period.

The cotton program also has attracted acreage away from soybeans. In the Southeast and the Delta, cotton planted plus idled area has increased by nearly 1.5 million acres since 1982.

Participation in the wheat program has increased and this has influenced soybean planting decisions in the Southeast, Delta, and the Eastern Corn Belt where soybeans are double-cropped with Soft Red Winter wheat. As set-aside acres increased in the Federal wheat program, the area available for double cropping soybeans has shrunk. During that period, soybean acreage dropped over 5 million acres both in the Southeast and in the Delta.

The Conservation Reserve Program also has removed acreage from soybean production. We estimate 1 to 2 million acres of soybean land have entered into the reserve.

The decline in U.S. soybean production, combined with the rising demand, has changed the U.S. oilseed situation from one where surpluses were growing to one where surpluses are shrinking. On September 1, 1988, U.S. soybean stocks are expected to be 315 million bushels, down 28 percent from a year earlier and down 41 percent from the record 536 million bushel stock level existing on September 1, 1986.

Farm prices for soybeans have risen from a low of \$4.60 a bushel in the fall of 1986 to around \$6.10 recently. Producers have had opportunities to contract 1988 crop beans for over \$6 a bushel.

POLICY ISSUES

Turning to the policy issues, the response to this situation of rising foreign oilseed production and lower U.S. soybean production has caused calls to come forth for a soybean marketing loan.

The Secretary, as you know, has discretionary authority to implement a marketing loan for soybeans if he determines that such action will assist in maintaining the competitive relationship of soybeans. The fact of the matter is that a marketing loan would not make U.S. soybeans more competitive in world markets at the present time.

U.S. and world market prices are well above the price support level. Soybean futures prices, both near and long term, continue to be at levels well above the loan rate, reflecting tighter global sup-

plies. And, under existing authority, the loan rate may be reduced for the 1988 crop.

A marketing loan does nothing to increase soybean acreage and could even have a dampening effect on prices that would lead to even further declines in acreage.

It has also been suggested that soybean planting should be allowed on permitted program crop acres with full protection of the crop acreage base. Another suggestion is that soybean plantings should be allowed on set-aside acres. Current law does not provide authority for such actions by the Secretary. Any increase in soybean acreage would tend to depress soybean prices. This would adversely affect all soybean farmers, while only those with established program crop acreage bases would enjoy program protection. Thus, we are firmly opposed to any planting of soybeans on set-aside or any other program crop acres.

At a time when the Nation is struggling to contain Federal deficits, a marketing loan program could lead to higher farm program costs. A precedent would be set to establish similar programs for other oilseeds, such as sunflowers, which would further depress soybean prices. Pressure would build to extend marketing loans to wheat and feed grains, where budget exposure would be enormous. There is no policy prescription that would simultaneously encourage U.S. soybean acreage, discourage foreign area expansion, protect farm income, and be budget neutral.

Soybean farmers have thrived for many years in a market-oriented environment. The fact that soybean farmers have remained independent of most Government programs has been a matter of pride.

It will be unfortunate if changes are made that lead the soybean farmer into dependence on Government programs in the years ahead.

Mr. Chairman, that concludes my remarks and I would be pleased to answer any questions you might have.

[The prepared statement of Mr. Myers follows:]

Statement of Peter C. Myers
Deputy Secretary of Agriculture
before
Committee on Agriculture, Nutrition and Forestry
Subcommittee on
Agriculture Production and Stabilization of Prices
and
Subcommittee on
Domestic and Foreign Marketing and Product Promotion
U.S. Senate
March 18, 1988

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you at this hearing to discuss recent developments in the U.S. soybean industry and the effects of farm policies on soybeans. As a soybean farmer myself for 28 years, I have been directly involved in the development and production of this great source of protein and vegetable oil.

Market Trends

The history of the U.S. soybean market, until recently, has been one of sustained growth. In 1930, soybeans were a little grown crop, with only 1 million acres planted for harvest. In comparison, wheat and corn accounted for 170 million acres. However, area planted to soybeans increased sharply to 71 million acres in 1979 and again in 1982, while wheat and corn acreage changed little, remaining in the 160-million-acre range. Much of this expansion was on erodible land and in some cases on converted wetlands.

During the 1960's and 1970's, U.S. soybean plantings rose by 50 million acres as world trade in soybeans and soybean products--meal and oil--increased dramatically. Unhampered by program production constraints, U.S. farmers benefited from this global trade growth. By 1982, U.S. exports of soybeans and soybean products were valued in excess

of \$8 billion² ranked first among U.S. agricultural export commodities. Export earnings of the soybean sector exceeded the combined exports of cars and commercial aircraft that year.

Since 1982, U.S. dominance of the world soybean market has slipped, while our market share in soybean meal has continued a decline that started in the late 1960's. There are a number of reasons for this. First, the global demand for high-protein feedstuffs weakened in the early 1980's and has only recently started to recover. Second, there has been strong competition from South America, particularly from Brazil where annual plant capacity for crushing soybeans has expanded from 1 million tons in the late 1960's to 25 million tons today. Third, there has been a major increase in the foreign production of vegetable oils, especially palm oil and more recently, rapeseed. Since 1982, world production of soybeans has risen 8 percent while palm kernel and rapeseed production have each increased about 50 percent. Fourth, the strength of the dollar in the early 1980's inhibited the competitive position of U.S. soybeans particularly vis-a-vis our customers in Europe and Japan. Fifth, the European Community has started subsidizing oilseed production, jeopardizing our access to that market. The EC's minimum price for soybeans is now about \$17 a bushel, based on the mid-March ECU/dollar exchange rate. That is about three times our market price.

World trade in soybeans and soybean meal, measured in soybean equivalents, is expected to total 61 million metric tons in the current 1987/88 marketing year. U.S. exports will account for about 28 million tons, compared with 33 million in 1982 and 11 million in 1967.

U.S. Soybean Acreage

Since 1982, the area devoted to growing soybeans in the U.S. has declined by 13 million acres.

The decline in U.S. acreage and production is largely due to the attractiveness of federal programs for other crops. For example, the feed grain program has caused acres to be shifted away from soybeans to feed grains. The corn target price of \$3.03 a bushel has provided a strong incentive to producers, particularly since loan rates were lowered in 1986. Consequently, program participation rates jumped from 54 percent in 1984 to 88 percent in 1987. Very few farmers elected to stay out of the corn program and not utilize their full feedgrain acreage base. Therefore, the acreage tied up in the corn program--that is, acres planted to corn plus acres required to be idled--has increased by over 5 million acres since 1982. Soybean acreage in the Corn Belt decreased 2-3 million acres during the same period. Soybean prices would have to rise above \$6.50 a bushel just to provide the same net return as the 1988 corn program, excluding any return to compensate for loss of corn base.

The cotton program also has attracted acreage away from soybeans. Greater participation by producers in the cotton program and eradication of the cotton boll weevil in the Southeast have increased the acreage allocated to cotton and set-aside acres compared with the early 1980's. In the Southeast and Delta, cotton planted plus idled area has increased by nearly 1.5 million acres since 1982.

Participation in the wheat program has increased and this has influenced soybean planting decisions in the Southeast, Delta, and the

Eastern Corn Belt where soybeans are double-cropped with soft red winter wheat. As set-aside acres increased in the federal wheat program, the area available for double cropping soybeans has shrunk. Consequently, double cropped soybeans declined from 11 million acres in 1982 to 4 million acres in 1987. During that period, soybean acreage dropped over 5 million acres both in the Southeast and in the Delta. In addition to less wheat, lower soybean yields, quality, and prices all contributed to the acreage decline.

The Conservation Reserve Program (CRP) also has removed acreage from soybean production. At the end of the fifth signup period, August 1987, almost 3 million acres of corn base had been entered into the reserve. In addition to this potential soybean acreage, another 1 to 2 million acres of soybean land has entered the reserve.

The decline in U.S. soybean production, combined with rising demand, has changed the U.S. oilseed situation from one where surpluses were growing to one where surpluses are shrinking. On September 1, 1988, U.S. soybean stocks are expected to be 315 million bushels, down 28 percent from a year earlier and down 41 percent from the record 536 million bushel stock level existing on September 1, 1986.

Farm prices for soybeans have risen from a low of \$4.60 per bushel in the fall of 1986 to around \$6.10 recently. Producers have had opportunities to contract 1988 crop beans for over \$6.00 a bushel.

Policy Issues

The response to this situation of rising foreign oilseed production and lower U.S. soybean production has been calls for a soybean marketing loan.

The Secretary has discretionary authority to implement a marketing loan for soybeans if he determines that such action will assist in maintaining the competitive relationship of soybeans. The fact of the matter is that a marketing loan would not make U.S. soybeans more competitive in world markets at the present time.

U.S. and world market prices are well above the price support level. Soybean futures prices, both near term and long term, continue to be at levels well above the loan rate, reflecting tighter global supplies. And, under existing authority, the loan rate may be reduced for the 1988 crop.

A marketing loan does nothing to increase soybean acreage and could even have a dampening effect on prices that would lead to even further declines in acreage.

It has been suggested that soybean planting should be allowed on permitted program crop acres with full protection of the crop acreage base. Another suggestion is that soybean plantings should be allowed on set-aside acres. Current law does not provide authority for such actions by the Secretary and, in fact, there are statutory prohibitions against each of these proposals. But even if such actions were possible, there are many difficulties involved. Any increase in soybean acreage would tend to depress soybean prices. This would adversely affect all soybean farmers, while only those with established program crop acreage bases would enjoy program protection. It would also be unfair to those producers who have program crop bases but cannot grow soybeans in their area of the country. Thus, we are firmly opposed to any planting of soybeans on set-aside or any other program crop acres.

At a time when the nation is struggling to contain federal deficits, a marketing loan program could lead to higher farm program costs. The idea of combining increases in soybean acreage with a marketing loan would create even more budget exposure. A precedent would be set to establish similar programs for other oilseeds such as sunflowers which would further depress soybean prices. Pressure would build to extend marketing loans to wheat and feed grains, where budget exposure would be enormous. There is no policy prescription that would simultaneously encourage U.S. soybean acreage, discourage foreign area, protect farm income, and be budget neutral.

Soybean farmers have thrived for many years in a market-oriented environment. In three of the past five years, soybeans have been the leading crop in terms of cash receipts to farmers, averaging \$11 billion annually. The fact that soybean farmers have remained independent of government programs has been a matter of great pride.

It will be unfortunate if changes are made that lead the soybean farmer into dependence on government programs in the years ahead.

Mr. Chairman, that concludes my remarks. I will do my best to answer any questions which you or other members of the Subcommittee may have.

Attachments follow:

Table 1: U.S. Export Commodities

		Major Agricultural				Selected Nonagricultural	
Calendar Year	Soybeans	Feed Grains	Wheat	Animals		Cars	Aircraft
	and	and	and	and			(Commercial)
	Products	Products	Products	Products			
---billion dollars---							
1982	8.12	6.53	6.93	3.93		2.86	4.85
1983	7.86	7.35	6.56	3.79		4.20	5.69
1984	7.17	8.20	6.74	4.23		4.87	4.15
1985	5.03	6.11	3.90	4.15		6.02	6.69
1986	5.81	3.17	3.28	4.49		6.25	7.37
Avg.	6.80	6.27	5.48	4.12		4.84	5.75

Table 2: Average Net CCC Outlays on Price Support and Related Programs

Year	Soybeans	Feed Grains	Wheat	Rice	Cotton	Dairy	Total
---million dollars---							
FY 1979-1988	84	5,764	2,297	419	881	1,596	13,175

Table 3. World Oilseed and Soybean Production and Trade

Item	1979/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88 ^{1/}
Production:									
World oilseeds (mnt)	169.6	154.9	169.2	178.0	165.4	191.2	196.1	194.3	203.7
World soybeans (mnt)	93.5	81.0	86.2	93.6	83.2	93.1	96.9	98.1	101.4
Soybean share (%)	55	52	51	53	50	49	49	50	50
U.S. soybeans (mnt)	61.5	48.9	54.1	59.6	44.5	50.6	57.1	52.8	51.8
U.S. share (%)	66	60	63	64	53	54	59	54	51
Trade:									
World oilseeds (mnt)	35.9	31.4	36.1	35.1	33.0	33.0	34.4	37.5	38.3
World soybeans (mnt)	29.1	24.5	29.5	28.5	26.2	25.3	26.1	28.7	28.7
Soybean share (%)	81	78	82	81	79	77	76	76	75
U.S. soybeans (mnt)	23.8	19.7	25.3	24.6	20.2	16.3	20.2	20.6	20.7
U.S. share (%)	82	80	86	86	77	64	77	72	72

^{1/} Projections as of March 9, 1988

Table 4: U.S. Soybean Supply and Use

Item	1985/86	1986/87	1987/88 ^{1/}
Area			
	---million acres---		
Planted	63.1	60.4	57.4
Harvested	61.6	58.3	56.4
Yield			
	---bushels/acre---		
	34.1	33.3	33.7
---million bushels---			
Beginning stocks	316	536	436
Production	2,099	1,940	1,905
Supply, total	2,415	2,476	2,341
Crushings	1,053	1,179	1,170
Exports	741	757	760
Seed and feed	60	57	57
Residual	25	47	39
Use, total	1,879	2,040	2,026
Ending stocks	536	436	315
Avg. mkt price (\$/bu.)	5.05	4.78	5.35-5.75

^{1/} Projections as of March 9, 1988

Table 5: U.S. Soybean Plantings and Related Acreage

Item	1979	1980	1981	1982	1983	1984	1985	1986	1987
---million acres---									
<u>Planted</u> Soybeans	71.4	69.9	67.5	70.9	63.8	67.8	63.1	60.4	57.4
<u>Planted Plus</u> <u>Idled 1/</u> Corn	84.3	84.0	84.1	84.0	92.4	84.4	88.8	90.5	89.1
<u>Conservation</u> <u>Reserve</u> Soybeans	--	--	--	--	--	--	--	.2	1.5
<u>Double-</u> <u>Cropped</u> Soybeans	--	--	--	11.3	7.7	7.5	5.0	3.6	4.0

1/ Includes corn base idled under the CRP.

Table 6: Regional U.S. Soybean Plantings

Year	E. Corn Belt	W. Corn Belt	Delta	Southeast
---million acres---				
1982	17.5	21.5	15.3	9.6
1983	16.4	20.1	13.3	7.8
1984	17.4	21.9	13.3	8.0
1985	17.5	21.0	11.5	7.0
1986	17.0	21.2	10.5	5.3
1987	16.9	19.9	9.7	4.2

E. Corn Belt: Illinois, Indiana, and Ohio; W. Corn Belt: Iowa, Missouri, Minnesota, and Nebraska; Delta: Arkansas, Kentucky, Louisiana, Mississippi, and Tennessee; Southeast: Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, and West Virginia.

Table 7: Crop Acreage in the Delta and Southeast

Item	1982	1983	1984	1985	1986	1987
---Million Acres---						
<u>Delta</u>						
Feedgrain planted plus idled	3.7	4.3	4.7	6.0	5.4	4.5
Cotton planted plus idled	2.6	3.1	3.0	3.3	3.2	3.6
Winter wheat idled	.1	1.2	.4	.5	.6	.8
Conservation reserve	--	--	--	--	.2	1.1
Total	6.4	8.6	8.1	9.8	9.4	10.0
Soybeans planted	15.3	13.3	13.3	11.5	10.5	9.7
<u>Southeast</u>						
Feedgrain planted plus idled	6.1	7.1	6.2	6.4	6.0	5.7
Cotton planted plus idled	.7	.9	.9	1.1	1.0	1.1
Winter wheat idled	.1	.9	.4	.5	.5	.6
Conservation reserve	--	--	--	--	.2	.9
Total	6.9	8.9	7.5	8.0	7.7	8.3
Soybeans planted	9.6	7.8	8.0	7.0	5.3	4.2

Senator MELCHER. We do not raise the soybeans in Montana, but when I was a youngster in Iowa, where I used to live, I do recall the shift that started in the 1930's as you testified. I thought perhaps the shift in the 1930's to soybeans was partially due to the fact that farmers became mechanized and they no longer had 8, 10, or 12 horses for which they had to raise hay and oats so they put some of those acres into soybeans.

Now you are saying that the corn program and other feed grain programs are more attractive than soybeans, is that right?

Mr. MYERS. That is right. You can make more money in the corn and the wheat programs than you can raising soybeans, especially at \$5.02.

Senator MELCHER. Although you do point out, as the soybean industry does, that we have lost world market shares. How much have we lost in exports?

Mr. MYERS. We have lost quite a few tons in exports over the past several years.

Senator MELCHER. The past 6 or 7 years?

Mr. MYERS. Right. We have dropped—

Senator MELCHER. Five million tons. Is that about a fourth or a third?

Mr. MYERS. About a fifth.

Senator MELCHER. How are we going to get that back, then?

Mr. MYERS. We are doing dramatic things, as far as our Export Enhancement Program and we have, in the past 2 months, done several export enhancements [EEP's] on sun oil and soy oil products.

Senator MELCHER. The products themselves?

Mr. MYERS. The sun oil product itself, that is right. And then, as we move into more of a market oriented farm program and we do not have these high target prices for some of our other crops, I think soybeans will become a better option for producers and we will see acreage change.

There again, it is going to depend on what the price of soybeans is and what the price of these other products are, as to how the farmers make their decisions.

Senator MELCHER. Are there any soybeans in CCC inventory now?

Mr. MYERS. Very, very few. There are some, but we are at very low levels in CCC inventory.

Senator MELCHER. How low?

Mr. MYERS. I can give you the figures if I can find the chart, Mr. Chairman. Between 25 and 50 million bushels, which is virtually nothing. We are pleased with that. We are selling soybeans, as much as we can, out of Government inventory to reduce Government inventory down to nothing, if we can.

Senator MELCHER. I think some of the foreign market might be for the meal itself, for feed, where they have plenty of oilseeds that they produce but do not have enough feeds. Can you use export enhancement for that, if you want to?

Mr. MYERS. We could use export enhancement for anything that we want to, if it is an American farm product.

Senator MELCHER. I like to hear you say that. I think, over the course of the years, we have given the Secretary of Agriculture the discretion to do whatever the Secretary pleases.

Mr. MYERS. Of course, as you know, we basically use that to go head to head against countries that subsidize, which would be primarily the European Community.

Senator MELCHER. You mention target prices coming down, but you are talking to a group of people that sit around this table that are not very willing to see target prices go down much more. Are you saying that they are going to be down low enough to put more acreage voluntarily into soybeans?

Mr. MYERS. It will depend on the price of soybeans. And as I said, target prices are slated to come down, under the 1985 farm bill, to some degree and farmers are going to have to make decisions. I have talked to some corn farmers that are debating right now about which way they should go. Should they stay out of the program, contract their corn at such and such a price, and raise more soybeans?

Senator MELCHER. It is cheaper for the Department if some corn acres are planted into soybeans, rather than into corn, is that not true?

Mr. MYERS. We would have less budget exposure, yes, that is correct.

Senator MELCHER. Yet you do not want us to do anything about it right now?

Mr. MYERS. Not with the soybeans. We think that the market is so strong right now we should let supply and demand and the market take its course. I am very optimistic about the price of soybeans for the next year.

Senator MELCHER. This year's planting?

Mr. MYERS. Yes, sir.

Senator MELCHER. Did you tell us that you are expecting 3 or 4 million more acres to be planted to soybeans this year?

Mr. MYERS. No, it will be less.

Senator MELCHER. How many?

Mr. MYERS. One to three.

Senator MELCHER. One to three million acres more?

Mr. MYERS. Yes. Because of the price, and this is conjecture and we think that some of this will come in the Southeastern United States because even at \$5 some of that acreage was not profitable. There are various estimates on this. Various people will have different estimates on the amount of acres coming into soybeans.

Senator MELCHER. How much less would the target price be for corn planted in 1989 compared to 1988?

Mr. MYERS. 1989 is slated to come down another 1.4 percent. It will be some 10 or 15 cents.

Senator MELCHER. 1.4 percent? It will be about 3 cents.

Mr. MYERS. \$2.93 to \$2.84.

Senator MELCHER. 1.4 plus the—

Mr. MYERS. Plus the original mandated reduction.

Senator MELCHER. Five percent.

Mr. MYERS. It will really depend on what the market of price of corn does, as the farmers are making their decisions on what they can contract or hedge the corn for.

Senator MELCHER. Thank you very much. Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman.

Mr. Secretary, I am curious about how accurate these projections are. Do you feel like we get accurate data on the projections that are made about how much acreage is going to be devoted to soybeans, or is this really guesswork?

Mr. MYERS. Senator, I think it is accurate, and it is based on the best data that we have. And of course, our national ag statistic service does a good job of surveying farmers and they get their data from what the farmers say they are going to do. People do change their minds.

There has been a variance in the soybean projected acreage. There are two or three private analysts that come up with their ideas. But we are all within a 2 or 3 or 4 million acre range at this point. I am comfortable with our data.

But here again, farmers can change their minds from what they had said in January they were going to do. I think we see this in cotton right now. I think the folks are kind of expecting to plant not quite as many acres of cotton because the price of cotton has gone down. So farmers will change their mind, as you well know, and that could affect our acreage data.

Senator COCHRAN. You have been in the business a long time and have a good deal of expertise personally in the matter of soybean markets and marketing. What is your personal view about the impact a marketing loan would have on the sale price, the price to farmers, of the crop?

Mr. MYERS. I honestly do not think the marketing loan would make much difference right now on the sale price. I think that the fundamentals in the market are what is keeping the price where it is.

Senator COCHRAN. If the marketing loan were required to be implemented, there would not be a downturn in the prices as a direct result of that?

Mr. MYERS. The fundamentals should not do that Senator, but markets do funny things. Speculators and people that legitimately hedge make this market and it could send some type of signal. I never try to outguess what the market does. I am telling you that very honestly.

Senator COCHRAN. I remember when we were writing the 1985 farm bill we talked about the impact the marketing loan would have on the price of cotton. There were some very bright people who were committed to the notion that if we mandated a marketing loan, it was going to drive the price of cotton right down to the bottom and it was going to be a catastrophe for the industry.

Just the opposite happened over the course of the last 2 years. I know it was not all attributable to the implementation of that marketing loan program, there were a lot of other factors involved, but that was one of the arguments that was waged against the marketing loan very strongly when we were trying to decide what to do, whether to make it part of the bill or not.

Mr. MYERS. Well, we have a different situation in soybeans, as you well know, with the price being well above the loan or any projected marketing loan. So I think the fundamentals are there to hold the price up.

Senator COCHRAN. There is a good deal of concern about what goes on in Brazil and Argentina. Some are suggesting that the Japanese are somehow involved in trying to help stimulate production or increase acreage devoted to soybeans in that area. Do you all have any information about that? Could you confirm or let us know what the facts are about that?

Mr. MYERS. We have people, ag counselors, that work for FAS in those countries, and so they see what is going on in Brazil and Argentina. I cannot tell you off the top of my head, but I can provide that for the record, as far as what their estimation of increase or decrease?

Senator COCHRAN. That would be good to have. Tell us what Japan is doing, if anything, in those countries in terms of infrastructure or investments that would assist in equipping them to be more competitive, more competitive than they really are already, in soybeans worldwide.

Mr. MYERS. We will provide that for you.

[The information follows:]

JAPANESE INVESTMENT IN OILSEED PRODUCTION IN BRAZIL

Although Japan has invested heavily in Brazil, most of its investment there is in manufacturing (primarily textiles and metals). Only a small fraction of Japanese direct investment in Brazil has gone into agriculture, and only part of that into soybeans. The most prominent Japanese investment affecting soybeans is the "cerrado project" on savannah land in Brazil's central highlands.

The Japanese Government also provided financial support for trading companies to invest in other overseas agricultural production, although such investments have been small and sometimes unsuccessful. For example, investments in Indonesian and Thai corn have been abandoned. The Japanese Government still supports agricultural investment in Brazil, but amounts are insignificant. The Japanese invested in Brazil because of cultural ties with Japanese emigrants living in Sao Paulo and because of Brazil's capacity to grow soybeans.

Japan accomplished its Brazilian investment through the Japanese International Cooperation Agency, consisting of large companies which, through government sponsorship, capitalized a program of investment by Japanese banks for Brazilian soybeans. The Brazilian Ministry of Agriculture set up a pilot agency, the Cerrado Regional Development Program, to jointly finance a credit cooperative for farmers to grow soybeans and other products. The scheme did not get underway until the late 1970's and early 1980's.

The "cerrado project" began in 1973 when the Brazilians proposed the joint development of a million hectares of savannah (they planned to develop another 2 million hectares without Japanese funding). In 1976, the Japanese agreed to a pilot project of 60,000 hectares to be planted to a variety of crops. After further negotiations, the project was finally implemented in 1979, with 49 percent Japanese and 51 percent Brazilian funding. The Japanese invested about 7 billion yen (\$28 million) in the venture, split between the government and private sectors. In December 1984, the Japanese and Brazilian governments agreed to expand the "cerrado project" to 200,000 hectares with a total investment of \$1.3 billion. Japan's share of the funding was \$400 million, the Brazilian national government accounted for \$800 million and the state government \$100 million. The project includes land in the states of Mato Grosso and Goias.

Table 1 provides soybean production information for Minas Gerais, the state containing the project's primary area of Belo Horizonte (see attached map). Production in the state remains a small share of total Brazilian output, although its share has increased and yields have been above the national average since 1979. We do not know what portion of

these gains is attributable to the "cerrado project," or the extent of the effect on neighboring states. However, 150,000 hectares all planted to soybeans would account for only 1.5 percent of total Brazilian soybean planted area. Table 2 indicates that despite the Japanese investment in Brazil, the United States continues to dominate the Japanese soybean market.

The Brazilian cerrado, or savannah, region covers about 1.3 million square kilometers, of which roughly 50 million hectares could be used for agriculture. The principle constraint is poor soil conditions, requiring treatment with lime, nitrogen, and phosphate, as well as advanced production techniques, for successful cultivation. The presence of large lime and phosphate deposits in the cerrado increases the possibility that the region could become economically productive if resources are available. Crops suitable to the cerrado are soybeans, cotton, pineapple, sorghum, corn, dry edible beans, and pasture.

Table 1--Area, production, and yield of soybeans in Brazil and Minas Gerais

	1970	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987
1,000 hectares											
Area:											
Brazil	1,319	5,824	8,256	9,774	8,501	8,202	8,136	9,311	10,100	9,170	9,210
Minas Gerais	2	76	117	162	186	229	258	332	447	430	450
X	.1%	1.3%	1.4%	1.9%	2.2%	2.8%	3.2%	3.6%	3.6%	3.6%	3.6%
1,000 tons											
Production:											
Brazil	1,509	9,673	10,240	15,156	15,007	12,835	14,582	15,350	18,200	13,400	16,000
Minas Gerais	2	87	195	290	274	390	478	554	880	780	785
X	.1%	.9%	1.9%	1.9%	1.8%	3.0%	3.3%	3.6%	3.6%	3.6%	3.6%
Tons/hectare											
Yield:											
Brazil	1.144	1.699	1.240	1.727	1.765	1.565	1.792	1.649	1.802	1.461	1.737
Minas Gerais	1.144	1.153	1.665	1.783	1.473	1.703	1.854	1.669	1.969	1.814	1.744
X	100.0%	67.9%	134.2%	103.2%	83.4%	108.8%	103.5%	101.2%	109.3%	124.1%	100.4%

SOURCE: Government of Brazil.

LOCALIZAÇÃO DOS CERRADOS NO BRASIL (IBGE, 1966)

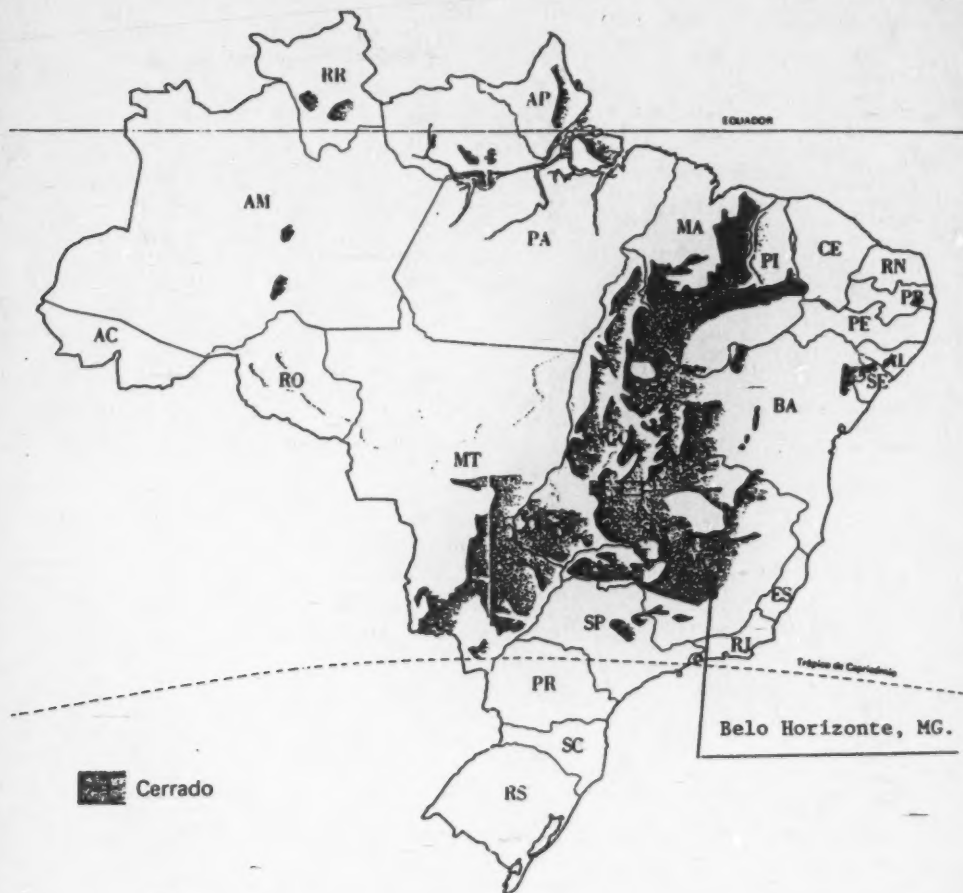


Table 2 —Japan: Soybean and soybean meal imports by major source, calendar years

Year	United States	Brazil	China	Other	Total
<u>1,000 tons</u>					
Soybean imports:					
1970	2,952	--	291	1	3,244
1971	2,927	--	283	2	3,212
1972	3,126	15	254	1	3,396
1973	3,210	185	226	14	3,635
1974	2,924	82	232	6	3,244
1975	3,041	44	240	9	3,334
1976	3,287	126	133	8	3,554
1977	3,428	58	98	18	3,602
1978	4,143	2	80	35	4,260
1979	3,839	1	80	35	4,132
1980	4,226	35	100	40	4,401
1981	4,022	1	113	61	4,197
1982	4,196	0	112	36	4,344
1983	4,646	24	288	37	4,995
1984	4,181	0	308	26	4,515
1985	4,345	210	289	66	4,910
Soybean meal imports:					
1970	70	1	--	1	72
1971	34	4	1	--	39
1972	44	--	6	2	52
1973	232	38	5	2	277
1974	124	6	2	--	132
1975	--	16	--	2	18
1976	1	19	71	--	3
1977	237	76	1	--	314
1978	263	72	--	5	340
1979	223	54	--	6	283
1980	239	72	--	15	326
1981	128	84	--	2	214
1982	47	38	2	--	87
1983	38	178	18	--	234
1984	--	105	11	--	116
1985	5	88	41	--	134

-- = Not available.

Source: Official Japanese trade statistics.

Senator COCHRAN. Thank you, very much.

Senator MELCHER. Senator Heflin.

Senator HEFLIN. Mr. Myers, I am reading from a January 18, 1988, edition of the "Progressive Farmer," speaking about soybeans. It says that: "Every time we reduce our share of the world market, the South Americans grab it up, lamented Wayne Bennett, President of the American Soybean Association, who farms in Arkansas. That trend is about to be extended. USDA officials estimate that U.S. farmers will trim soybean plantings in 1988 by another 3 to 4 percent. Meanwhile, the 1988-89 crop in South America, most of which has already been planted, is expected to be up by at least 10 percent."

Would you agree with that statement?

Mr. MYERS. He probably used some data that we had previous to the market coming up and of course now we think, actually, our acres are going to come up. I think Wayne would agree also—and you will hear from the Soybean Association in a minute. Not putting words into Wayne's mouth, but that might have been an older quotation.

The fact is our acres are going to be up in this country, or we project that they will be up, Senator.

Senator HEFLIN. What about the South American 10 percent increase?

Mr. MYERS. That is probably relatively accurate.

Senator HEFLIN. Then, if we have a small percentage increase and they have as much as 10 percent increase for last year, then I gather than it has been a trend where each year they have increased their plantings. Bearing that in mind, that the EC's minimum price for soybeans is now \$17 a bushel, based on the mid-March dollar exchange rate, which is about three times our market price, then if we have, in the world, a situation where there are increases, there are protections such as in the European Community, and increases in foreign competitors, does that not indicate that there is a need for a policy change?

Mr. MYERS. Not when beans are \$6, Senator. I think the policy ought to stay as it is and let the market take its course. There is a bullish market on top of that.

Senator HEFLIN. Well, if their plantings continue at 10 percent a year, where is it going to leave it 5 years from now?

Mr. MYERS. They may not continue at 10 percent a year. That is going to be a factor of the market and they have to make those decisions, as to whether they can afford to expand acreage.

Senator HEFLIN. Based on your knowledge of the South American plantings, as they exist—with the market price where it is today, or anything that is in effect above our loan rate—do you not anticipate that they are going to continue to increase their planting?

Mr. MYERS. I do not know what their cost of production is and what their cost of clearing land is. If I did, I could give you a more intelligent answer on that. If I were the investor over there, that is what I would look at. And then I would look at the futures market, that they can look at a year from now and see what January 1989 soybeans are. That would probably have some influence on my decision.

Senator HEFLIN. The cotton program. I would assume you would say today that the marketing loan has been a success in the cotton program?

Mr. MYERS. That has been one of the things that have helped cotton, yes, sir, along with a shortage in world supply.

Senator HEFLIN. The program has been a success.

Mr. MYERS. In cotton, it has absolutely been very effective in reducing Government-held stocks of cotton.

Senator HEFLIN. It has certainly reduced the Government's cost tremendously.

Mr. MYERS. You are right.

Senator HEFLIN. One of the elements in the Government cost was the inventory adjustment payments, which you, the Department of Agriculture, had a choice between two options. And they chose one where there were large payments.

But by adopting a marketing loan, which would go into effect for the 1989 crop-year, that would reduce the potential, if the bill so provided, for inventory.

Mr. MYERS. It would, but I would also submit that we have an entirely different case with soybeans, where we do not have an inventory. We did with cotton. We had lower prices in cotton. We have higher prices in soybeans. So it is hard to make an analogy between the two.

Senator HEFLIN. You still have a surplus in soybeans. It is not as large. What is it, over 300 million bushels?

Mr. MYERS. That is projected carryover, but we are pretty low in total beans, which is good for prices.

Senator HEFLIN. One of the advantages of the marketing loan in cotton has been a result that has brought about reduced plantings from our foreign competitors. China substantially dropped its plantings. The South American competitors. It is my understanding that Australia and others dropped their plantings.

Most of those countries, and I would say this is probably true of most countries, have a marketing board where as our situation is different. That board can look toward each year and can advise their farmers. And as a result of the marketing loan, it is my understanding that these marketing boards or governmental entities that would, in effect, control sales have advised their farmers in those countries to reduce their plantings.

Now the fear of the marketing loan impact, as I understand it, has been the reason that those plantings have decreased. Are there any reasons why that a similar fear will not result among foreign competitors in growing soybeans if we have a marketing loan and they know it is there?

Mr. MYERS. Of course, in China I am sure they tell their folks what to plant, whether they have a board or not. Australia, in my understanding, those farmers make their decisions independently.

Senator HEFLIN. But they get advice generally. I would not say it is mandatory.

Mr. MYERS. I think they put out statistical advice, but I do not believe in Australia they have any type of marketing board that I am aware of.

In answer to your question, here again, you would have to look at the investors, the people that are investing money in the coun-

tries that would be expanding. They would have to make a judgment as to what price they thought they could go ahead and invest in clearing land or planting more soybeans. I could not give you an accurate answer as to what they would think, not knowing what their decision points would be.

Senator HEFLIN. Are there some distinctions relative to cotton that would not be present relative to soybeans?

Mr. MYERS. To some degree, yes. There is probably a strong demand for cotton and a little shorter supply right now that was not in place when we put the marketing loan in place, but not necessarily as a result of. The same supply and demand factors should work for either crop.

Senator HEFLIN. By the way, I was in Australia recently and it was to my utter amazement there—I mention this because I think this is something that the Department of Agriculture can do. In Australia, in the raising of their livestock, they do not use soybeans. They buy no soybeans in those countries.

They, of course, have grass and other things, but I think there is some advantage to educating them as to what soybeans could do. I just mention that as a passing observation.

Under the present price of soybeans, and your prediction that the soybean market will do, at least your feeling. As I understand, nobody knows what it will do. But under your projections, I gather that you anticipate that the soybean price for American soybeans will be good for the next year?

Mr. MYERS. Yes, sir.

Senator HEFLIN. Based on that, if a marketing loan is implemented at \$5.02, there should be relatively little cost to the Government for putting the soybean marketing loan into place?

Mr. MYERS. Our figures show that there could be a cost as high as \$200 million for 1988 and 1989, but that is a cash outlay. Even though the loan would be repaid, the farmers would use the loan and so it would be an outlay from the Treasury, which would have to be scored as an outlay above the benchmark.

Senator HEFLIN. At the price, you would anticipate that if the price is \$6.12, as I believe you mentioned here in your testimony, and the loan was \$5.02, that there are not many farmers who are going to forfeit themselves to the CCC. If you score it as that, that is an accounting mirage, in effect, and it may be that from the viewpoint of Government accounting and budgetary aspects, it has some impact. But in reality, it does not mean any real cost to the Government.

Mr. MYERS. In 1988 and 1989 it would, as we make the loans, Senator. But you are right, as the loans are repaid, in reality, it would not be a cost to the Government over a period of years.

Senator HEFLIN. Now for 1989 and 1990, you are talking about numbers that you have today, based on 1988 and 1989, not the 1989 and 1990 numbers?

Mr. MYERS. That is correct.

Senator HEFLIN. You are not basing it on when it would go into effect? Those are just based on 1988 numbers as you have today?

Mr. MYERS. The cost would be lower, Senator, you are right, but soybeans would still go under loan and we still have a cost projected above what the baseline shows now. You are exactly right, the

net difference down through the years would not make any difference, but the way it is scored would make a difference.

Senator HEFLIN. I do not have the figures with me. I have seen them and have them somewhere. But on the cotton, the cost to the Government as a result of the implementation of a marketing loan has reduced the cost to the Government as it is now, as to what it is costing it, somewhere close to 50 percent.

It was over \$2 billion and now the cost to the Government of the cotton program is somewhere in the neighborhood of \$600 or \$700 million, which is a substantial savings, a savings that we are interested in, relative to all agriculture programs. But it seems to me that you have got a situation where we are encouraging foreign planting.

We have a situation where our competitors, who are subsidizing at \$17, a price in the European Community is at \$17 a bushel, and you have got a world in which most of them are Government controlled, or get substantial advice from marketing boards or other things, that a policy needs to be changed to try to combat those factors that are out there which, in effect, drive down the price. Or else, in the EC community, they are going to have use more money. It would appear to me that that is a policy problem that we need to address.

The whole issue of soybeans, as I see it, in the world market today is a problem that needs to be addressed and it can be addressed. I think the marketing loan is the answer, but obviously just sitting back and doing nothing and letting our competitors continue to increase their plantings and continue to take away from our soybean producers' money that they could be making as profit in a world market price situation, that we need to address it from a policy basis.

That is all.

Senator MELCHER. Senator Bond.

Senator BOND. Thank you, Mr. Chairman.

Pete, let me go through this and see if I have got it right. Since 1982, U.S. soybean production has declined 13 million acres. You stated that our stocks of soybeans that CCC stocks have been declining dramatically. In other words they are selling them out of that, so the stocks are going down.

The total production has dropped to 1.9 billion bushels. The exports for 1987-88 were only up about 3 million bushels. What are your projections for 1988-89 exports? I do not think they are in the table.

Mr. MYERS. They are close to this year's level. We do not publish those yet, Senator, but they are close to this year's level.

Senator BOND. Has the Department made a projected equilibrium level for production and price for the coming year? What the production would be and what the price is likely to be?

Mr. MYERS. We projected what the acreage would be and then we project the average yield and then we look at the total supply and we project our price in the \$6 range.

Senator BOND. Your charts show that last year the planted acres were down to 57.4. What do you project them this year?

Mr. MYERS. We are projecting them to be up 2 or 3 million acres, 58 or 59, in that area. But that is a projection.

Senator BOND. If this is all they go up, if it goes up no more than that, and we are seeing a 4 percent annual increase in demand worldwide, would the Department be willing to explore options to increase the acreage? If so, what are the options and what would you be likely to do?

Mr. MYERS. We would not explore any options to increase acres. Anything that would increase acres artificially would have an impact on prices. As a past soybean farmer, I do not want to impact prices negatively, at all. So we are not going to explore any options to increase acreage.

Senator BOND. Are we going to be content to allow the Brazilians and the Argentineans to come up to 1 billion bushels in production? And in catching up to us, to capture that share of the increase?

Mr. MYERS. If the market dictates it and their economic factors can do it, then that is what would happen. I do not think we want to be in a position of artificially causing soybean prices to go down. I know I do not.

Senator BOND. Currently, you say the market is dictating it, but our loan support does provide a floor, so when you are making that projection they are protected on the down side. If we do not do anything along the lines of the marketing loan, what is it that the United States can do to discourage further expansion in South America?

Mr. MYERS. It would be difficult because they do not directly subsidize, as in the European Community. We can discourage the European Community by export enhancement sales to their traditional customers, which we are doing in oil. And of course, at the same time, in the GATT actively going at them to reduce subsidies because they are artificially high priced for not only soybeans but rapeseed, and then their dumping it on world markets at lower prices is also causing a distortion.

Senator BOND. I am very much concerned that without some incentive to produce soybeans on additional acres, with current problems in the other commodity programs, how can we attack those? Are not soybeans a logical area with the increasing demand to take up some of that land?

Mr. MYERS. Not program cropland. I think that the price should dictate if other land should come into production and that is why we are projecting the acreage to be up a little. We think there will be more acreage that has been idle, in the Southeast for instance, since soybeans are up in that \$6 range, will come back into production.

It may be that some farmers that double crop will look at the option of planting their full wheat base and not cutting back on set-aside and that, in the South, would cause more soybean acres. But basically, it would be within the framework of the programs as they are now, and the price.

Senator BOND. What price do you think we would see substantial soybean acres coming in? In some high cost area, a \$6 range, would that—if we went as high as \$7, what would that do to acreage?

Mr. MYERS. It could be up another 4 or 5 million because typically the Southern yields are lower than the yields in the Upper

Middle West. And of course, it takes a higher price for that type of land in the South and the Southeast to come into production.

And here again, your Soft Red wheat and alternative crops, people would make a decision, looking at soybeans instead of letting the land idle or in a minor crop.

Senator BOND. Thank you very much, Mr. Myers, Mr. Chairman.

Senator MELCHER. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. Peter, good to see you.¹

I, first of all, wanted to get a clarification on your comments on marketing boards in Australia. What is your understanding on marketing boards in Australia?

Mr. MYERS. They do not have marketing boards that control the sale of the commodity for the basic commodities. They have——

Senator CONRAD. They have a marketing board in wheat, for example.

Mr. MYERS. Not in Australia. Oh, the Australian Wheat Board, OK.

Senator CONRAD. For barley, they have regional boards.

Mr. MYERS. Could be.

Senator CONRAD. I have met with these people and I am going to be awfully surprised if these people——

Mr. MYERS. Do they sell the barley and sell the wheat, as the Canadians do?

Senator CONRAD. I do not know if they control the marketing as in Canada.

Mr. MYERS. When I say they did not have a board, I meant they did not actually market the commodity.

Senator CONRAD. But it would be curious to have a board that did not have at least indirect control of marketing. It would be hard to understand why else you would have one.

Let me go to another question, because what we have before us is really which markets receive export enhancement—the reason I make that point is we hear from the State Department all the time that we are only going to target against those who are subsidizing. There are many ways to subsidize. We know how our friends in Canada subsidize agriculture—through transportation. Even though it is indirect, the effect is the same.

Mr. MYERS. They have a marketing board and a two-price system in Canada.

Senator CONRAD. Absolutely.

Mr. MYERS. The Australians, to my knowledge, do not have a two-price system where they take it in at one price and sell it at a lower price. If they have a board, they sell it at the price they receive it at. And they are not artificially——

Senator CONRAD. But do it for the purpose of being able to control the strategy of their marketing. That is my understanding.

My understanding is that on barley they have a higher domestic price in Australia. They have a two-price system there.

Mr. MYERS. I am not familiar with that.

¹ The prepared statement of Senator Conrad can be found on page 16.

Senator CONRAD. Let me go to another question. Our acreage on soybeans has declined 13 million acres. My understanding is that on sunflowers we have declined in the last 7 or 8 years by roughly 4.8 million acres, something like that. Is that pretty close to what you have?

Mr. MYERS. That is close.

Senator CONRAD. On soybeans, as a percentage, that represents what, about a 20 percent loss of acreage base? Eighteen or 20 percent?

Mr. MYERS. Close to it, from the high years.

Senator CONRAD. On sunflowers, we are down 80 percent on an acreage base?

Mr. MYERS. Seventy to 80 percent.

Senator CONRAD. What concerns me greatly, we look at those kinds of losses, in sunflower we are talking about an 80 percent reduction. Are you taking the same position on sunflowers as on soybeans?

Mr. MYERS. No marketing loan for sunflowers, that is correct.

Senator CONRAD. What are we going to do?

Mr. MYERS. We let the price be a factor. I think sunflowers are up around 9 cents a pound right now. If a producer can contract for that, that should be his judgment, in competition with barley or some other crop that he has.

Senator CONRAD. Would you offer a contract this morning at 9 cents? We have some people that would be willing to take that here this morning.

Mr. MYERS. No, but I have heard that they are selling for 9 cents right now. That is my only information.

Senator CONRAD. I do not think so.

Mr. MYERS. I am not definite.

Senator CONRAD. I am just saying if you would offer at 9 cents this morning, you would have some takers here.

You know, when you have had that kind of reduction, what have we seen worldwide? Has that 13 million acres on soybeans, has that been lost from the world market or have others picked that up?

Mr. MYERS. Obviously, others have picked it up. The European Community has picked it up.

Senator CONRAD. How about on sunflowers?

Mr. MYERS. I do not know about sunflowers. I can find out for you.

Senator CONRAD. I think sunflowers—I would be interested to know, but I think sunflowers have been picked up, too. What I see happening to us is we lose these acres and now the price recovers and sure, we are going to have some expansion, but our friends out there, our competitors who subsidize to a fare-thee-well, they are going to benefit, too.

We have lost our share, what had been our share of the market and we do not have a strategy—at least I do not hear one today—about how we are going to recapture that lost base. Is there a strategy?

Mr. MYERS. There is a strategy in the fact that the market should have its impact. There is a strategy in the fact that we are using export enhancement.

Senator CONRAD. On sunflowers?

Mr. MYERS. Sun oil, we have had 10 or 12 EEP's on sun oil in the last 2 months.

Senator CONRAD. But the reason for that is that Congress took action to provide the money to do that. We had nothing but resistance from the administration.

Mr. MYERS. We administer what you give us, and we are administering the program, as we should.

Senator CONRAD. I understand that. That is as it should be. I am saying in terms of the administration, what is the strategy? I mean, you have done something on sunflowers. The reason you have done something is Congress took action, with your resistance.

What is your strategy for recapturing an acreage base that we have lost?

Mr. MYERS. Let us look at the word recapture. Part of the reason we had this dramatic expansion in soybeans, particularly in the late 1970's and early 1980's was because we had extremely high prices and we plowed up a lot of pastures and converted a lot of wetlands. Some of that acreage came from that. So some of that acreage is now going back out of production.

Our strategy is basically using export enhancement, using targeted export assistance, which we are using aggressively, to expand markets in other countries, so we can expand a demand for our oil-seed products.

Senator CONRAD. Mr. Chairman, I do not want to impose on other members here, in terms of going ahead. I have got some other questions on the cost, because I think there are very legitimate questions about the analysis of cost here, what are we talking about, baseline?

Mr. MYERS. Yes.

Senator CONRAD. And the cost of switching. I would be very interested to know what you see as the cost of switching out of non-program crops over into program crops. For example, if we were at 9 cents on sunflowers, that would be at a cost of about \$20 to \$30 an acre. On wheat we are at what, \$50 an acre cost? Something like that.

Mr. MYERS. At least. You mean to the Government?

Senator CONRAD. Right.

Mr. MYERS. Yes.

Senator CONRAD. So to the extent we are able to diversify that base, having people out there in sunflowers is much less expensive to the Government than having them out there in wheat or corn. Would that not be the case?

Mr. MYERS. Not necessarily, because you might have people outside of the program that would have planted barley outside of the program, which would have been no cost to the Government, and shift into the sunflowers, which would be at cost to the Government.

Senator CONRAD. But if we are talking program crops. If we are talking somebody who is in wheat, somebody who is in corn, and if they were in sunflowers, we would have a savings to the Government, would we not?

Mr. MYERS. It depends on the shift that they make, whether we had a savings or not. If they made an acre for acre shift, they

would. But, here again I think it is going to be up to that individual producer. He is going to look at the price of sunflowers, either set by the market or the Government, and then make his decision based on the price he can receive for his wheat or his barley.

Senator CONRAD. But the other thing he is going to look at is that in one crop he has program protection and the other crop he does not.

Mr. MYERS. He is going to look at prices, I think, as much as anything.

Senator CONRAD. Well, I will tell you, a lot of folks lost base being in sunflowers. They lost base and they are never going to forget what happened to them. I find that in my State. We had tremendous loss because they were heavily into sunflowers and they lost base.

Mr. MYERS. I lost all my cotton base because I elected not to plant cotton for 4 or 5 years. So be it. I would love to have it back, but I cannot.

Senator CONRAD. It becomes a factor in your decision, though?

Mr. MYERS. That is right. I made that decision several years ago.

Senator CONRAD. I would assume it would be a factor in any future decisionmaking that you would have?

Mr. MYERS. You would have to look. Anytime the Government is in it, you have to look at what the programs are, there is no doubt about that. You do not make it based on markets alone.

Senator CONRAD. That is really my point.

Mr. Chairman, I yield and we can go back to other witnesses.

Senator MELCHER. Pete, I want to get something clear in my own mind. First of all, as I understand it, we all agree that it would be desirable to have more soybean production and to assure that we could regain some of the world market share that we have lost.

Mr. MYERS. My number one goal is price and profit for the producer, Senator. If we could do both, that is fine, but I do not want to have expanded acres at the expense of a producer. He is losing price and losing profitability.

Senator MELCHER. I think I understand that, but nevertheless, I think it is fair to say that the Department's position is that we hope to have more of the 3 million acres more planted in soybeans. Is that correct, or not?

Mr. MYERS. That is what we project, but we would hope that the market would dictate that, whether we have more or less, and the price to the producer would influence his decision, and not what the Government tells him to do.

Senator MELCHER. Well, I am not talking philosophically here. I am talking about down to earth, practical.

Mr. MYERS. I agree. I agree with you.

Senator MELCHER. If there were 3 million more acres planted in soybeans, that came out of corn, we would also anticipate that strengthens the price of corn, would we not?

Mr. MYERS. Yes, if there were less corn acres in total, it would tend to strengthen the price of corn.

Senator MELCHER. So we are not really too concerned on this point. We just hope that there are more soybean acres planted, and whatever happens between the price of corn and soybeans will probably offset the other.

The second point is that if there were up to 3 million more acres of soybeans planted that came out of corn, that it would save money for the Government.

Mr. MYERS. But it probably will not come out of corn, Senator. This is the best of our estimation, and my own personal observation.

Senator MELCHER. That it would not come out of corn? You think the increased acreage would be in the South and that these acres would not be in corn?

Mr. MYERS. Right.

Senator MELCHER. The third point I want to bring out is directly related to that point. Is there authority by the Secretary, at his own discretion, to allow a corn farmer taking part of his corn acres without losing his base, to allow say a third of the target price payment to be paid on those acres, as if they were planted in corn?

Mr. MYERS. No. We do not think we have that authority. In fact, we know we do not.

Senator MELCHER. Well, at last we found something you do not have the authority for.

Mr. MYERS. We do not have that.

Senator MELCHER. Do you want us to give you that authority?

Mr. MYERS. No, sir. No, sir.

Senator MELCHER. But it would save money, would it not?

Mr. MYERS. It depends on where you take it from and how much of a shift and what price you set.

Senator MELCHER. It has to save money, does it not? You say to a farmer if you want to take 5 percent of your corn base and put it into soybeans—

Mr. MYERS. It might save the Government money. It would depend how much soybeans were expanded. And then if the price dropped and we took some soybeans into the loan, it might not.

Senator MELCHER. Five percent of the corn base would be 4 million acres. And not everybody would be doing it, would they?

Mr. MYERS. No, only the Corn Belt farmers. It would hurt the farmers in the South and the Southeast because they would not have this advantage. They would not have corn base. So that is the trouble with tinkering with it, in this manner.

Senator MELCHER. I do not know about tinkering, we tinker every day.

Mr. MYERS. You are right, Senator. We do. We are the worst tinkers.

Senator MELCHER. You are talking about reducing the target price for the 1989 crop 1.4 percent plus something, right?

Mr. MYERS. Plus 2 percent.

Senator MELCHER. Plus 2 percent. If that is not double layer tinkering, I never heard of it. I think we want to explore this point with the producer groups testifying next, because there is no question it is going to save money. After all, you are taking 5 percent of the corn base of a particular farmer and you are going to pay only one-third of the deficiency payment. That means on those particular farms, you save two-thirds of the deficiency payment on the 5 percent.

Mr. MYERS. I agree but I guess, at this point, we have our budget figures locked in. I would prefer to make sure that the soybean

farmer made a bigger profit, than worry at this point about saving a little money for the Government.

Senator MELCHER. He would make a bigger profit, would he not?

Mr. MYERS. Not necessarily. If the price went down, he would not.

Senator MELCHER. The price of soybeans might go down if there are 3 million more acres?

Mr. MYERS. Yes, sir.

Senator MELCHER. But then the price of corn might come up.

Mr. MYERS. But you are not talking about the same folks, all the time. That is where it gets difficult.

Senator MELCHER. We passed a bill last night in the Senate that was introduced I think about 10 days ago. I guess the reason it passed so fast was because the administration said yes, we would like to see you do that. I guess we could probably pass a bill to allow the Secretary to do just what I described, if the Secretary wanted it.

Mr. MYERS. He would not. I can tell you that, Senator.

Senator MELCHER. He would not want to save some money? I am not sure how the next witnesses would respond to this, because I guess we would want to know if they were for it, too. It would seem maybe we ought to think about saving some money.

Senator Cochran.

Senator COCHRAN. Let me just ask one other thing of the witness, if I could, Mr. Chairman.

So we could have it for the record, Mr. Secretary, could you develop a cost analysis of a marketing loan for soybeans for 1988, 1989, and 1990 and supply that for the record?

Mr. MYERS. Yes, sir. I am sure we have it and we will supply it for those 3 years.

[The information follows:]

COST OF A SOYBEAN MARKETING LOAN FOR THE 1988/89 THROUGH 1990/91 CROPS

Net CCC outlays for a soybean marketing loan depend on the loan rate established for the crop. Recent legislative proposals for marketing loans would set the soybean loan rate at a minimum of \$5.02 a bushel. With such a loan rate for the 1988/89 through 1990/91 crops of soybeans, net CCC outlays are estimated to increase by \$225 million during FY 1988-90 (\$20 million in FY 1988; \$195 million in FY 1989; and \$10 million in FY 1990), compared with no marketing loan and loan rates set at minimum levels permitted under current law. This estimate assumes soybean prices will remain above the loan rate with a marketing loan in place during the next three crop years. The increase in outlays is almost entirely due to farmers placing more grain under loan because of the 50-cent or greater increase in the loan rate. A greater volume of soybeans are carried under loan at the end of FY 1989, leading to the large outlay increase for FY 1989. During FY 1990, loan placements also rise but are offset by greater repayments of year-earlier loans. If domestic and/or foreign supplies increase dramatically causing significant price weakness, the cost of the soybean marketing loan could exceed \$1.0 billion annually.

Marketing loans for sunflowerseed and cottonseed would also raise CCC outlays. A soybean marketing loan would likely require the price of sunflowerseed and cottonseed to be supported at levels that would cause them to compete on equal terms. With loan rates comparable to \$5.02 for soybeans, net outlays for marketing loans for cottonseed and sunflowerseed are projected to total about \$75 million for FY 1988-90, with the bulk of the outlays occurring in FY 1989. Again, these costs could be much greater if prices weaken significantly from current levels.

Senator COCHRAN. Thank you.

Senator MELCHER. Thank you. You are talking about a marketing loan. Senator Cochran?

Mr. MYERS. For soybeans. Yes, sir.

Senator MELCHER. Thank you very much, Pete.

Dr. Abner Womack, Co-Director, Food and Agricultural Policy Research Institute, University of Missouri. Dr. Womack.

STATEMENT OF ABNER W. WOMACK, CODIRECTOR, FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE (FAPRI), UNIVERSITY OF MISSOURI, COLUMBIA, MO, IOWA STATE UNIVERSITY, AMES, IA

Mr. WOMACK. Thank you, Mr. Chairman and members of the subcommittees, I appreciate the opportunity to appear before you at this hearing on the expected status of the U.S. oilseed industry. My comments are based on a recent longer term evaluation of the U.S. crops and livestock industry by the Food and Agricultural Policy Research Institute, which is jointly sponsored by the University of Missouri at Columbia and Iowa State University at Ames, Iowa. I have been asked to address three questions this morning.

The first of which is to examine through our models the projected path of production in the United States and in South America from now until 1990.

- Second, to look at the relative price ratios that might make us more competitive with South America, and third, to examine the acreage that might be necessary to achieve that level of competitiveness.

I have comments that I would like to use and then submit a more detailed statement to the record, if that is permissible.

Senator COCHRAN [presiding]. Your prepared statement will be included in full in the record.

Mr. WOMACK. I might mention that although we are a large econometric modeling unit, we do base our analysis on statistical analysis and there is a margin of error around our estimates, as well other assumptions that we make might lead us astray. Here are three assumptions that would be pertinent to our analysis.

The first of which is that we have assumed that the Food Security Act of 1985 will be continued through 1990 and that we will be successful in removing 45 million acres in the long term conservation reserve. PIK certificates will continue to be used as partial payment to farmers and we will continue the EEP Program, but at reduced rates as our stocks decline.

Second, we also are basing our projections on moderate to intermediate real GDP growth rates in the United States and world economies. These forecasts are associated with current Wharton Econometrics forecasts in Philadelphia, Pennsylvania.

Third, and a very important assumption in our analysis, is that we expect the Secretary and the administration to continue to use area control programs and make PIK generic certificates a large part of the payment to farmers who participate in programs. This will have considerable downside pressure on our U.S. feed grain prices as we move through the end of the decade.

In order to summarize my points, perhaps it would be best to look at the table attached to my prepared statement, and try to

summarize these answers to the three questions that we have been asked to address.

On table 1, in order to try to answer the question of whether our prices are competitive and what price we might use to maintain competitiveness with the South American producer, we have summarized our projections for corn prices from 1987 through 1991 with some historical numbers.

You might notice that from 1970 to 1979 corn prices averaged \$2.10, but from 1979 to 1985, about \$2.79. And from 1987 through 1991, we are projecting corn prices at below \$2. This seems to be a substantial problem with regard to the competitiveness position of the U.S. soybean industry.

Secondly, our price forecast for the soybean industry is around \$5.63 for the current year, which is up moderately from last year at \$4.80, but that we are projecting prices for the 1988-89 crop at above \$6. As we move to 1989-90, the price will probably start to decline and decline into 1990-91.

Part of this price path is very much associated with the corn-bean price ratio. We think this corn-bean price ratio, as it moves above three, which is the case in 1986 and since the inception of the FSA85, that as long as that ratio is at 2.5 or above, we will send the South American producer strong incentives to expand acreage than will be the case for the U.S. farmer.

So that is a direct signal that we are beginning to focus on with regard to our competitive position between the United States and South America. It is obvious that if we are running above three on this ratio, that they are receiving a very strong signal to produce, and that signal is fairly continuous.

However, the signal to the U.S. farmer is boom-and-bust. Since 1986, 1987, with a \$4.80 season average price, he has lost about \$45 an acre in land from soybeans. He backed away from production in 1986 and has done the same thing in 1987. So we have 2 down-years probably followed by 2 up-years.

In other words, we draw down our stock as we move out of soybean production. As those stocks are drawn down, as they are currently, then prices might begin to shoot back up. We bring in acreage for the next 2 years, kill prices, and then the 2 years following our area goes down.

So we go boom-and-bust in response to a signal that is being received from farm program administration and probably complicated from \$2 corn price with no target support for soybeans. So we would agree with others who have already testified.

We are definitely giving a mixed signal to the U.S. farmer, but we are giving a steady signal of expansion to the South American farmer. It appears that the competitive price ratio is about 2.3 to 2.4. That would mean a \$4.60 to \$4.80 soybean price right now, which is not profitable to the U.S. producer.

So as our prices go up, and if they do approach the direction that Secretary Myers was discussing, we certainly will pull the soybean area back in the United States in 1988, but we will certainly bring additional land into production in South America.

Looking at the second question that we tried to address in our analysis, is our projected area for the United States and South America from now until the end of the decade. We are projecting

about 60.6 million acres harvested. That would be about 61.6 this spring for the U.S. production and that is up rather significantly from the level of 57.4 of last year.

Our projections may be on the high side of anybody else that we have seen so far. We think that the price if we do, in fact, get above the \$6 price this year, that we may find our area at about 63 million by this spring next year. But those 2 expansion years would result in stock accumulations and by 1989-90, we would be back exactly at the area that we were when we started the 1985 farm bill, at about 62 or 63 million acres.

So we end the decade about where we were with a bit of a drop and some increase and then a drop back.

In South America, we are showing and expect a steady increase in the area. So they start off the period of the FSA85 at 31 million acres. We have them winding up the decade at about 38 or 39 million acres. So an expansion of almost 8 million acres, relative to no change for the U.S. soybean industry.

That is fairly significant, 7.6 million acres up to 8 million acres is the size of total area planted in 1987 to Indiana and Ohio, that we expect them to gain during the life of this farm bill, relative to no change for the U.S. soybean industry. So we definitely are losing in this position.

To examine that in some more detail, we have run analyses and attempted to estimate equation response for the South Americans, and we find that the South American producer is as responsive to higher prices as is the American farmer. As a matter of fact, our supply responsiveness is about 0.2, which says for a 10-percent increase in prices of soybeans, we would expand the area about 2 percent. We get exactly the same response in Brazil, but the Argentine response is double that.

So for a 10-percent response in Argentina, we are getting almost a 5-percent increase in area.

We still would gain at the current level if we had a 10 percent increase. The United States would get about 1.2 million acres, South America about 1 million acres. But as they expand, they will catch us and begin to stay with us.

This analysis tends to indicate that they are very competitive and price responsive. So they will respond to a high price signal. So if we are attempting to remain competitive with South America, we need to be very careful about the price ratios that come out of our market, which they see, and the second price ratio which has been discussed by others, that the farmer is not seeing an expansion signal. He is seeing a price ratio of about 2 to 1, where the South American is seeing a ratio of about 3 to 1.

Until those ratios merge, it is not likely that we are going to change the situation.

To make that point a little more emphatically, table 2, attached to my prepared statement, shows the total area of changes. You can see that from 1970 to 1979, the United States did outpace South America. Table 2 shows that from 1970 to 1979, U.S. area increased about 28.1 million acres. During the same period of time, South America increased about 22.4, with most of that coming from Brazil.

Between 1979 and 1985, with the higher value of the dollar and world recession, we dropped about 9 million acres. They increased 4.5 million acres. Their increase is the size of all area produced in Missouri for 1979 to 1985.

When we move to 1985-90, we are showing our change as being zero. We may get expansion this year and next year, but the ratchet effect that we are getting into may pull our area down by 1990, so no change. But yet we expect a 7.5 million acre increase in South America by the end of the decade. That area is exactly the size, or very nearly the size of Ohio and Indiana production.

If you look at the net change over the 20 years, 1970 to 1990, we have increased 19.4 million acres and they have increased 34.5 million acres. That is to the tune of 15 million acres. That brings in Indiana, Ohio, and Illinois and maybe another smaller State, that they have gained in a 20-year period relative to the United States, that suggests that we really are shifting toward a feed grain state in the United States and that South America is shifting toward a soybean state. That path is very distinct.

When did it occur? If you would look at the next page, this graphic might give a little clearer indication about the third problem that we have been asked to address. That problem is the area needed if a \$4.60 to \$4.80 soybean price is competitive with South America and hold the price ratio at about 2.3 to 2.4, what area would we need to be competitive with them?

Just to review the top table, this is a graphical presentation of what we just went through, but from 1970 to 1979, we increased 28 million acres. From 1970 to 1979 South America, on the bottom part of the table, increased 22.4. We had a bean-corn ratio of about 2.56.

So they increase area and so do we when that ratio moves up above the 2.5 level.

But when we go to the period from 1979 to 1985, our corn-bean ratio dropped to 2.34 and our farmers really backed out of soybean production and our programs became very important and dominant and the farmers were participating to ensure base area. That has become even more dominant as we move into the 1985 to 1990 period. But the bean-corn ratio, where it is 3.0 now, as compared to a 2.56 early on, should be causing expansion by U.S. farmers.

It simply is not, as long as we decide that we are going to have a \$2 corn price. So we would lay an awful lot of the responsibility for the no change between 1985 and 1989 to the way we are managing our current farm program, with a heavy use of PIK certificates. It suggests to us we may be overdoing the level of PIK certificates relative to the benefits that we are getting back, and certainly the costs.

To make that point a little differently, we have examined the model from 1990 to 1995. I have not included that information here. But at about 1991, the corn stocks begin to back off and they come down to more normal levels. When that occurs, the corn price, season average price, moves to about \$2.25. And the soybean price moves to about \$5.25. And that is a ratio of about 2.3 to 1.

So as the corn price comes up just this moderate amount, it allows the soybean prices to ease into the \$5 range, which seems to be an equilibrium range after the stocks are depleted and the price

ratio moves into a competitive range for the U.S. farmer, which means that our projections from about 1990 to 1995 would imply that there would be moderate expansion in South America, but still we would stay with them or probably exceed them in the United States.

So again, our focus would be on the price ratio, that there are two ratios. The first is the one that the Brazilians are seeing that is more associated with our market ratio. But the U.S. farmer is seeing one that is a stranglehold and will not provide incentives until prices really go up. Then they respond, but South America responds under all scenarios.

When we have low prices they respond, when we have high prices we respond.

So if we look at the question in the bottom part of the table, what area do we need in the United States to be competitive, well that area is very much associated with trying to find first the price that we ought to have to be competitive. That is about \$4.60 beans. Not a price that the U.S. farmer is going to produce, but that is a price that keeps us competitive.

If you will notice in the little chart on the right-hand side, on the bottom, with the 7.6 up in the top triangle in South America, the 7.6 number, the expanded area that we expect South America to increase from the 1985-90 period, we need exactly that difference to be competitive with them.

In fact, we may need somewhere around 6 million acres above where we started in 1985, in other words 68 million acres, or 10 million acres above where we were last year. So if we are going to plant 61 to 62 million acres this spring, we really need about 6 million additional acres to be competitive or generate a market competitive price.

However, to take the question from the other direction, what kind of price would the U.S. farmer have to see to plant 68 million acres? The answer seems to be about \$7 beans. So the dilemma. The farmer needs \$7 beans. The market needs to see \$4.60 beans, in order to be competitive. So we have got a \$2.20 gap on 2 billion bushels of soybeans.

So it suggests that we are distorting the soybean industry as long as we are EEP-ing wheat and as long as we are PIK-certing and PIK and rolling the feed grains, that puts so much downside market pressure on the feed grains and other commodities that it shoots the ratio up and tells the Brazilians to produce more.

So our focus would be on whether we really are balanced in the way we are managing the program, especially with regard to the heavy use of the PIK certificates.

Finally, I would add the same caveats that I have heard others add. That is that we are in a tight budget position and we do have to look carefully for moneys. However, we are estimating that for each million acres that we lose, and let us say it is 6 million that we need, it is about \$100 million in net returns to farmers. They clear about \$100 an acre.

So for each million acres that we lose to the farmer, out of his pocket, is about \$100 million to the input salesman. That is about \$50 an acre. So that would not be a net to him, but a gross of about \$50.

But at any rate, if you are keeping up with numbers, the 6 million acres that we have lost and probably will not get back, in the 1985 to 1990 period, certainly must amount to more than \$1 billion a year. So that when we try to determine what we might allocate to solve this particular problem, it is a case that we are giving up tremendous amount of acreage and it is a case that that acreage may not come back in and that is a net loss to us every year, and that we probably should be more careful about looking at the balance between the feed grain and soybean industry, and that the problem may be more internally generated in the United States than it is external to the U.S. markets.

That concludes my comments, Mr. Chairman.

[The prepared statement, tables 1 and 2, and chart of Mr. Womack follow:]



Statement by

Abner W. Womack

Representing the

Food and Agricultural Policy Research
Institute (FAPRI)

University of Missouri, Columbia, Missouri
Iowa State University, Ames, Iowa

before the
Senate Subcommittee on Agricultural Production
and Stabilization of Prices and
Senate Subcommittee on Domestic and Foreign
Marketing and Product Promotion

March 18, 1988

Center for National Food and Agricultural Policy
Department of Agricultural Economics
University of Missouri-Columbia
Columbia, Missouri 65211
314-882-3576

CARD/Center for Trade and Agricultural Policy
Department of Economics
Iowa State University
Ames, Iowa 50011
515-294-1183

Statement of Abner W. Womack
Professor of Agricultural Economics
of the University of Missouri, Columbia
Representing the Food and Agricultural Policy
Institute (FAPRI)

Mr. Chairman and members of the Subcommittees, I appreciate the opportunity to appear before you at this hearing on the expected status of the U.S. oilseed industry. My comments are based on a recent longer term evaluation of the U.S. crops and livestock industry by the Food and Agricultural Policy Research Institute (FAPRI) jointly sponsored by the University of Missouri at Columbia and Iowa State University at Ames, Iowa. The evaluation is based on three important assumptions:

- o continuation of the Food Security Act of 1985 through 1990 with heavy utilization of acreage control programs, removing 45 million acres through the long term conservation program, PIK certificates as partial payment to farmers and a continuation of the EEP program but at reduced rates and stocks are drawn down.
- o moderate to intermediate real GDP growth rates in U.S. and world economies as currently projected by Wharton Econometrics, Philadelphia, Pennsylvania.
- o Combination of area control programs and PIK generic certificates to place down side pressure on feed grain prices through 1990 unless severe droughts occur in the U.S. or other world economies.

A more detailed briefing of this outlook is planned later this month for U.S. Senate and House of Representatives staff. Therefore, my comments will be restricted to the consequences estimated for the U.S. and South American soybean industries. Comments cover three broad areas beginning with the projected path of U.S. and South American soybean acreage and production.

U.S. and South American Soybean Area Projections

The U.S. soybean industry is projected to end the life of the FSA85 at about the same level that it started (table 2). Current projections for 1990, by FAPRI, place planted area at about the same level as 1985, 62.9 million acres. But South American area is actually projected to increase by about 7.6 million acres for the same period, suggesting a very strong competitive position for international trade over the next three years.

Program administration, with the heavy use of PIK certificates, seems to be complicating this situation. Market prices have floated below loan rates adding pressure to soybeans and other feed grains. This scenario played over the longer term generates a stream of expectations that favors program participation with a strong incentive to protect feed grain and wheat area base. With lower returns for soybeans, about \$45 per acre and, increased idled acres in the Conservation Reserve Program, soybean acreage has steadily declined. This seems to be placing the industry in a ratched position. Stocks will dwindle to the point that sharp price increases occur - probably in the later part of 1988 and into 1989. Higher prices attract more soybean

land, eventually bringing substantially lower prices, etc. The continued heavy use of PIK certificates has distorted normal price relationships resulting in boom-bust periods for the soybean industry.

Since prices are currently running about \$1.20 to \$1.40 per bushel higher than last year it is very likely that area will expand by about 4.5 million acres this spring to 61.8 million acres, FAPRI forecast. Current projections suggests that prices may average above \$6 for 1988/89 with more area expansion is projected in the spring of 1989 to 64.6 million (Table 1). Eventually higher production results in stock accumulation with lower prices projected in 1989 and 1990, hence a boom-bust cycle.

Apparently this management strategy is having more of a boom cycle effect on South America. Area expansion is projected for the next three years moving up to 36.8 million acres in 1988 and ending the decade at 38.8 million. In our efforts to regain export trade shares the current management policy is having exactly the opposite effect on the U.S. soybean industry. Brazil and Argentina have an incentive to respond to lower soybean prices simply because of exceptionally lower feed grain prices. A shift out of feed grain area has been a contributing factor. But as U.S. soybeans stock are drawn down prices increase, adding an additional incentive to expand. So as the U.S. industry goes through boom-bust cycles, South America receives a boom signal under either scenario.

Expected Commodity Price Levels Necessary to Maintain Competitive-
ness With Oilseed Producers in South America

If current policies are maintained the expected price for U.S. corn is at or near \$2.00 per bushel in each of the next three years. This lower price necessarily implies that world prices will also move at this level. So the question to be answered is the corresponding soybean price that establishes a competitive position with soybean producers in South America. Our analysis tends to indicate that this may occur with a soybean/corn ratio from about 2.25 to 2.40 or soybeans between \$4.50 to \$4.80 per bushel.

Problem, \$4.50 to \$4.80 bean prices will occur only if U.S. soybean area is expanded. But these prices will not induce expansion and will result in planted area remaining near the 1987/88 level of 57 million acres, four million below 1985. So the distortion is very much associated with the heavy carryover levels of corn and the corresponding strategy to eliminate these excesses.

As our projections move beyond 1990, corn stocks reach normal levels. The seasons average price moves to about \$2.20 per bushel for corn and \$5.60 for soybeans, a price ratio of 2.55. If our models adequately capture the economics of the soybean industry in the U.S. and South America, then area expansion between 1990 and 1995 will be roughly the same in both regions, increasing about 2.6 and 2.3 million acres respectively. Therefore, it is likely that ratios in excess of 2.5 will begin to over stimulate soybeans relative to feed grain area in South America.

Also equation estimates imply that Brazilian and U.S. farmers respond very similarly to price signals. Each area has an esti-

mated supply response elasticity of 0.20 measured at 1987 levels. Argentina farmers are much more responsive with an estimated supply elasticity of .49. This simply implies that if soybean prices increase ten percent, U.S. and Brazilian farmers would increase area by about two percent, but Argentina farmers would increase by about 4.9 percent. The U.S. is a marginal winner at current production levels, a ten percent increase would expand domestic area about 1.2 million acres while South America would expand roughly 1.0 million.

Historical observations tends to support these estimates. Between 1970 and 1979 U.S. bean prices doubled, moving from \$2.85 to \$6.28 per bushel. U.S. soybean area expanded by 28.1 million acres, a 67 percent increase; South American acreage increased by 22.4 million about five times their 1970 level of production.

The picture is much less optimistic since 1979. Projected net change in planted area for both countries between 1970 and 1990 suggest that the U.S. has been outpaced by 78 percent. Net gains for U.S. area is 19.4 million acres compared to 34.5 in Brazil and Argentina. About 13.2 million of this gap occurred between 1979-85 a period where the U.S. dollar created a substantial disadvantage for U.S. producers. But this pace is likely to be perpetuated between 1985-90 moving up an additional 7.6 million acres.

Obviously South American Producers are price responsive and have reacted accordingly - lower feed grain prices signaled better returns in soybeans. Our policy must be given the major portion of the responsibility for this shift since 1985.

Domestic Acreages Necessary to Achieve a Balance With South American Producers

FAPRI projections place U.S. soybean acreage this spring up about 4.9 million from last year. An expected price ratio of above 3.0 between corn and soybeans will also stimulate South American acreage this fall - at least an additional 1.5 million acres moving from 35.3 to 36.8 million acres. Attempts to modify these foreign price incentives suggests bringing the ratio back in line from the 3.2 level down to 2.3 to 2.4.

Modifying to achieve prices of \$4.60 to \$4.80 implies about 68 million planted acres of soybean this spring, or roughly 10.6 million acres above 1987 plantings. Considering that the U.S. was at about 62 million acres in 1985 then the industry should be running about six million acres above that initial level. Ironically, this six million acre differential is almost exactly the increase projected by FAPRI for South America between 1985 and 1990 of 7.6 million acres.

The final question involves the necessary incentive to bring U.S. acreage up to the 68 million level. Our soybean acreage equation suggests that a \$7.00 soybean price will be necessary to stimulate this level of production. This places returns to soybean producers at or near expected returns achieved by feed grain producers at current levels of government supports. The gap between \$4.80 and \$7.00 is the amount required to stimulate adequate soybean acreage if the posture of low feed grain prices are maintained.

Summary

So the dilemma is certainly focused around current program objectives. If the desire is to maintain a relatively low feed grain price then incentives will be necessary to ensure U.S. soybean production and corresponding competitive price ratios. To achieve a more desirable balance implies soybean acreage in 1988 at about 68 million acres, about 10.5 million above 1987.

Obviously program objectives are at counter purposes and in the meantime, South American acre expansion between 1985 and 1990 is equivalent to all soybean planted area in Ohio and Indiana in 1987. Heavy subsidies to feed grain producers and corresponding payments in PIK certificates will continue to shift the balance towards our competitors.

Long term losses are painfully obvious. It is very likely that expanded or new production area will remain competitive with the U.S. soybean industry for many years.

Perhaps some simple rules of thumb will help to focus on this very serious situation in the future. If our analysis is correct we can expect South American producers to be as supply responsive as U.S. producers. U.S. soybean area and production will very likely share equally in the future provided that price signals remain in normal ranges. Signals that move above the normal ratio for beans and corn of 2.3 to 2.4 will begin to encourage foreign production.

Since the inception of the FSA85 this ratio has moved above the 3.0 level. Under any set of price combinations the incentive exists for soybean expansion by our competitors. They will shift towards bean area even if soybean prices are relatively low, i.e., \$4.80 season average in 1986/87, with a \$1.50 corn price and ratio of 3.2 or if prices are higher in the \$5.63 range in 1987/88 but with a \$1.70 corn price and a ratio of 3.29. So the first signal of trouble will be a market price ratio that begins to exceed the 2.5 level.

The second signal is whether the U.S. farmer is receiving the same incentive. Obviously a 3:1 ratio is a signal from the market to produce more beans. The U.S. farmer has responded, but with fewer acres. He is receiving a different signal and a different ratio. Given current prices and government supports implies an average corn price at about \$2.65 per bushel. PIK and roll has even moved this price higher for many producers. So this ratio for U.S. farmers is near 1.8 in 1986, 2.0 in 1987 and perhaps 2.4 in 1988.

Perhaps we should be considering the relative size of the two ratios and concentrate our efforts on ensuring that U.S. soybean farmers receive an equitable signal to produce soybeans.

If the two ratios are different, i.e., the market ratio of 3.0 and the U.S. farmer ratio of 2.4 then action is warranted, otherwise we will not remain competitive and can expect foreign area to continue to outstrip U.S. area.

An additional caveat, the path and policies we are pursuing will contribute to foreign expansion. For each one million acres we lose, net farm income to soybean producers declines about \$100 million and sales to input industry by about \$50 million, so \$150 million is displaced down on the farm, not to mention additional

revenues above the farm gate.

If our projections are correct and we end the decade with soybean acreage about where we started in 1985, but South America has expanded by 7.6 million acres, an area the size of soybeans planted in Ohio and Indiana, then unrecoverable losses to the U.S. agricultural economy could easily exceed \$1.0 billion per year.

References

1. Ten Year Outlook for U.S. Agriculture Under the FSA85, Food and Agricultural Policy Research Institute, FAPRI #1-88, University of Missouri-Columbia and Iowa State University, March 1988.
2. Marketing Loan Options for the U.S. Soybean Industry: Economics Evaluation Through 1990/91, Food and Agricultural Policy Research Institute, University of Missouri-Columbia and Iowa State University, July 1986.
3. Managing the Food Security Act of 1985: The Current Strategy and Two Alternatives, Food and Agricultural Policy Research Institute, FAPRI #3-87, University of Missouri-Columbia and Iowa State University, July 1987.
4. CARD/FAPRI Models: A Brief Description, The Center for Agriculture and Rural Development, Iowa State University, Ames, Iowa, February 1988.

TABLE 1. U.S. CORN AND SOYBEAN PRICE, \$/BU.

	1970/71	1970-79	1979-85	1986/87	1987/88	1988/89	1989/90	1990/91
	----- Avg. Historical Avg. -----				----- FAPRI Projection -----			
Corn	1.33	2.10	2.79	1.50	1.71	1.90	1.96	2.00
Soybeans	2.85	5.31	6.59	4.80	5.63	6.24	5.28	5.11
Corn/Bean Ratio	2.14	2.56	2.34	3.20	3.29	3.28	2.69	2.56

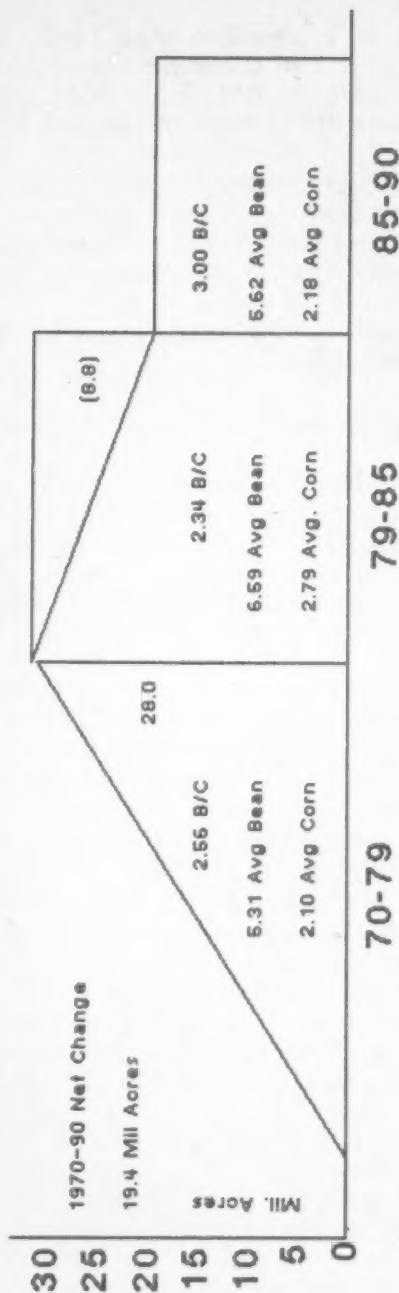
TABLE 2. U.S. AND SOUTH AMERICAN SOYBEAN AREA, MILLION HARVESTED ACRES

	1970/71	1979/80	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
	----- Historical -----				----- FAPRI Projection -----			
U.S.	42.2	70.3	61.6	58.3	56.4	60.6	63.3	61.6
South America	7.3	26.7	31.2	31.9	35.3	36.8	38.2	38.8
Brazil	4.2	21.7	22.9	22.9	25.4	26.0	26.9	27.3
Argentina	0.1	5.0	8.3	9.0	9.9	10.8	11.3	11.5

Harvested Acre Change, Millions

	----- Average -----			
	1970-79	1979-85	1985-90	Net Change (1970-90)
U.S.	28.1	-8.7	0.0	19.4
South America	22.4	4.5	7.6	34.5
Brazil	17.5	1.2	4.4	23.1
Argentina	4.9	3.3	3.2	11.4

Net Change Projection for U.S. Bean Acres



Net Change Projection for South American Bean Acres



Senator MELCHER [presiding]. Thank you very much, Dr. Womack. Senator Harkin.

Senator HARKIN. Once again, I will welcome you here, Dr. Womack. I have been a long time admirer of the work that FAPRI has done, both at Iowa State and the University of Missouri. I am sorry I did not have a chance to go over this before today, and I got here a little late for your presentation.

I am just trying to absorb this, and forgive me for asking you to go back over something you have just been over, but I just want to get it clear in my head about the price ratio. Please explain again, if you will, how that affects the South Americans increasing their acreage put into oilseeds?

Mr. WOMACK. I think a rule of thumb on that is that as a market price ratio, for beans and corn, exceeds 2.5—

Senator HARKIN. As it exceeds 2.5.

Mr. WOMACK [continuing]. We can expect expansion in South America.

Senator HARKIN. That leads to expansion in South America.

Mr. WOMACK. That will lead to expansion, regardless of what we are doing in the United States. If they see that ratio at about 2.5 or above, they are going to expand.

Senator HARKIN. So obviously, you are saying that from a policy standpoint, the program should be managed so as to keep that price ratio at or below 2.5?

Mr. WOMACK. That is right. If we want to maintain a competitive edge with them. As it moves beyond that, we can expect them to expand one for one with us, so if we had no market constraints and our farmers saw the same signal, they probably would expand about the same way the South Americans do.

Senator HARKIN. Now if you get that ratio less than 2.5, as a cutoff point, it seems to me that two things could occur. You either drop the price or get the price of beans down to match the low level of feed grains, or you get the feed grains up close to that. Is there something else that I am not looking at?

Mr. WOMACK. No, that is exactly right. I guess the point is that if we want \$2 corn, we really have decided that we want \$2 corn, and we are getting it with a heavy use of PIK certs, then the ratio, a competitive ratio of 2.3 to 2.4 says that our international bean price is \$4.80.

Senator HARKIN. But our bean price is higher than that.

Mr. WOMACK. It is now, and so the ratio is much, much higher. Let us just concentrate on the ratio that the South Americans receive. They have got a ratio of 3 to 1 or better, and they really are starting to react to that, and we are projecting that they will expand area this year and most others this morning were, too.

Senator HARKIN. I do not quite understand. Let us say soybeans right now are somewhere over \$6, in our markets out in the Midwest. Feed grain prices, corn prices, are in the area of \$2.50. Is that about right? \$2.50 to \$3, let's say.

Are you saying then that would discourage South America from putting more land into soybeans?

Mr. WOMACK. I think that we are getting an expansion signal to South America when our bean prices are low and we are giving an

expansion signal to them when our bean prices are high. So we are giving a continuing expansion signal.

Let us take 1986-87. We had \$1.50 corn and we had \$4.80 beans. Now a competitive price ratio of about 2.3 would have said we needed \$3.45 beans. So the Brazilians kicked in gear with the \$4.80 because the corn price was so low.

And then, when we go to 1987 and we still had \$1.70 corn price, and the soybean prices are a little bit higher and the ratio has shot up, so now they are really turned on. We go above 3 to 1.

What ratio do the U.S. farmers see, is the question? The U.S. farmers see about a \$2.60 season average price for corn when you factor in the target price. So if we take a \$5 bean price and divide by a \$2.65 corn price, his ratio is less than 2 to 1.

The problem is those ratios are too far apart. The U.S. farmer needs to see a ratio of about 2.4 to 2.5. So as long as we have sweetened the feed grain program the way we have, but then drop certs which pushes the corn price even further down, we have brought the soybean prices down to the point where they are not incentives to produce.

So in 1986, we back out of acreage. South America is getting the signal to expand; 1987 we back out our acreage, they are getting the signal to expand. In 1988, we start to get back in the area only because we ran our stocks down and prices are tight.

Now we will come back in next year and build our stocks, prices will go down again as long as we hold this path of fairly low corn prices. So we go up and down, up and down, and they go continually up.

If our analysis is correct about the way those two industries behave, more of this problem would be associated with the management of our program than it would be things outside of the border of the United States.

Senator HARKIN. Let me ask one more question. If, in fact, our feed grain prices were to go up, close that gap, then would not the signal go to South America that they have ought to put more acreage in feed grains?

Mr. WOMACK. Not necessarily. If the ratio still stayed about 2.3 to 2.4, the signals are about the same. And you probably would see them expand, but no more rapidly than us because our responsiveness is not much different.

And the other part of the question is what we gain if we have \$1.80 corn, \$2 corn. And we did try to run that analysis last year to see—at the time we were running at \$1.50 corn, \$1.80 corn. And we simply examined the consequences of changes of our PIK certs and instead of paying off 50 percent certs, the deficiency payment goes to 25 percent and then let the corn price move up toward the \$2.10 range.

And what we were concerned about is that even if we did that, if we moved the corn price from \$1.80 up to \$2.10, \$2.15, we might lose the export market. But we did not find that much responsiveness, which is to say that we have gotten in a price range, when you look at each commodity, that is fairly competitive. So that we may have overshot in our desire to get rid of our stocks and heavy use of our PIK certs, there may be where we should concentrate efforts on rebalancing the program management.

It still is a very strong program. It is doing lots of good things. But we may have just tilted it a little bit too much.

Senator HARKIN. Thank you very much. Thank you, Mr. Chairman.

Senator MELCHER. Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you very much. Dr. Womack, I understand that the thrust of your testimony is that we ought to keep the acreage that we have in soybeans in soybeans irrespective of worldwide demand. Is that one of the suggestions that you are making in your testimony?

Mr. WOMACK. No, sir. I think we would have to certainly look at worldwide demand. I was just trying to answer the question about where our competitive position would be. And the signal that Secretary Myers gave earlier would be the same that we have. If we are looking at market signals then this spring would imply an increase in acreage to that market signal. But it would not be enough acreage to keep us competitive with South America.

It would take about 68 million acres to give a price back in the market. If we really get a price of \$6.25 next year, that is an expansion signal to them. And if we want a neutral signal, it should be about \$4.80.

Senator COCHRAN. What is your reaction to the suggestion that a marketing loan would be more appropriate in that it does not give any signal except to say that we are going to stay in business?

Mr. WOMACK. It is a very strong tool. It would depend on what marketing loan number you use. And we have examined the soybean industry at different levels of marketing loan, and below \$5.02 it is questionable as to whether we would get an awful lot of impact. But above \$5.02 it starts to move us in the right direction. And it is particularly important, even though we are forecasting a \$6.25 price for the coming year, if we had a big crop this year and next year we would probably have below \$5 bean price.

So at least the U.S. farmer would not see below \$5 in the event that we had big crops. And that may be two times out of three. So it could be helpful, but it is not enough to close the gap which may be as much as \$2 a bushel right now.

Senator COCHRAN. We are talking about sending signals. Would not the ratio that you are recommending between corn and soybean prices also be a signal to the South America producers to increase production?

Mr. WOMACK. According to our analysis, Senator, their supply responsiveness is about the same as ours, which means they are very competitive. And if they see price strength, they are going to go for more area, and so we will. So if we get our signals out of balance then it tilts them relative to us, and we think they would expand about the same rate we will.

Senator COCHRAN. Is there any price at which they would view our policy as a disincentive to production?

Mr. WOMACK. I think that it depends on the ratio.

Senator COCHRAN. What if we went to \$2? What if soybeans were driven down to \$2 a bushel, would not South America continue to produce and expand?

Mr. WOMACK. I doubt that they would at \$2.

Senator COCHRAN. If the Japanese are there helping them?

Mr. WOMACK. Somebody would have to help them at \$2. But that would certainly put the hurt on them, I think.

Senator COCHRAN. Now where do we carry this? What is the extreme at which you really have an impact on their production decisions? I wonder about that.

Mr. WOMACK. We are trying to answer the following question. After we get rid of these stocks—if stocks are really distorting this situation. If that is what we are putting our focus on, the way we are managing our stocks, what happens after we get rid of these stocks? And the corn price seems to float at about \$2.20, and the bean price starts to float at about \$5.25 to \$5.50. And that ratio holds our area expansion at or above their area expansion, but it does not stop them.

We cannot get anything in the models that will stop them if they get price signals to expand. They are about the same response as we are.

Senator COCHRAN. Let me ask you this question. I know that when we were developing alternative suggestions to the Food Security Act of 1985 one suggestion came from our friend and colleague, Senator Harkin and Congressman Gephardt from Missouri, the so-called Family Farm Act. At that time I think you were one of those who supported that initiative with analysis that showed this would be good for agriculture, good for farmers, good for America. Is that not right? Do I have you right—

Mr. WOMACK. Senator, we cannot support any legislation.

Senator COCHRAN. No, I am not talking about you supporting legislation. You were providing the economic analysis that was the basis for that proposal, were you not?

Mr. WOMACK. That is correct.

Senator COCHRAN. My question then is, have you had an opportunity to look at the analysis that was done on that proposal by the Economic Research Service? They submitted a report to our Committee on Appropriations in January. I really had not publicized the thing because I really had not gotten around to reading all of the details of it. Have you seen a copy of that?

Mr. WOMACK. We have a copy. We have not evaluated it, Senator. We have just finished this 10-year forecast and it has had us pretty well tied up. But we will evaluate it.

Senator COCHRAN. I was looking a moment ago at the summary, which I am going to put in the record with the permission of the committee, to just let us know that there is another side of the story. This is a copy of a letter, a forwarding letter from the Assistant Secretary of Economics, the Department of Agriculture, and it was sent to me in January, and with the permission of the chairman, I would like to include that letter and copy of the summary, which is just three pages long, in the record at the appropriate place, Mr. Chairman.

Senator MELCHER. Without objection, it will be made part of the record.

[The letter and summary of Senator Cochran follow:]



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

JAN 11 1985

Honorable Thad Cochran
United States Senate
Washington, D.C. 20510

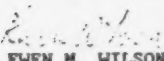
Dear Senator Cochran:

At last year's appropriation hearings for the Economic Research Service (ERS) you asked for an analysis of the Family Farm Act provisions as specified in H.R. 1425 and S. 658 which were introduced in Congress last March. After a lengthy review process, ERS has completed their analysis.

I am enclosing a report that evaluates the effects of the Family Farm Act in comparison with the Food Security Act of 1985 (FSA). There are sharp contrasts between the two program approaches. The Family Farm Act reduces domestic and export use, increases crop surpluses, lowers agribusiness economic activity, and raises farm program costs. The differences go beyond the agricultural sector as there are long-run implications for taxpayers, domestic and foreign consumers and for competing foreign producers. The enclosed report covers those aspects.

I hope you will find the analysis and evaluations to be useful.

Sincerely,


EWEN M. WILSON
Assistant Secretary
for Economics

Enclosure

The Food Security Act and the Family Farm Act

A Comparison of Impacts and Objectives

Summary

This report has been prepared in response to a request from Senator Thad Cochran (R-MS), ranking minority member of the Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies. The Food Security Act of 1985 (FSA) which is the current law authorizing government farm commodity programs is compared with a Family Farm Act bill which was introduced in Congress in March 1987 as an alternative to the FSA. Both policies have similar overall objectives to assure an economically viable farm production sector while minimizing taxpayer costs. But, the program provisions designed to achieve these objectives are very different as are the overall effects across the agricultural sector and the total economy.

With the current situation as a starting point, the two policies are compared as if the Family Farm Act was adopted in 1988 in contrast to a continuation of the FSA. The beginning situation is characterized by high government outlays, by near record acreages of idled land, by a low point on the cattle inventory cycle, and by an emerging turnaround in agricultural exports as quantities and values are increasing.

Under a continuation of the FSA, the export market continues to rebound, the cattle inventory begins a slow upward trend, gross cash income increases and upstream and downstream businesses experience increases in their level of business. Government outlays, idled acreages and surplus stocks all decline.

If the Family Farm Act provisions were introduced starting in 1988, export quantities would either be below FSA export levels or else brought up to FSA levels only through substantial export subsidies. In the short run, the value of exports under the Family Farm Act would be greater than under the FSA, but this advantage would erode because unsubsidized export levels under the Family Farm Act would fall further and further behind the export levels under the FSA.

Government outlays would increase under the Family Farm Act because excess production would either have to be stored or subsidized into the export market. Production, particularly of corn, would continually exceed use because high price supports would make producing profitable and the maximum set-aside percentage would prevent program officials from being able to increase the amount of idle land enough to control production. Even with the acreage of idle land at maximum levels, corn stocks would continue to grow. Under the Family Farm Act provisions, the supply-demand imbalance would worsen rather than be solved.

Liquidation of the cattle herd would resume under the Family Farm Act. In general, upstream and downstream businesses would suffer from reduced input sales or reduced volumes to handle.

Both policies transfer income to program crop producers and to dairy producers. Under the Family Farm Act, the transfers are made from consumers through higher prices that have to be paid for raw products and from taxpayers through storage costs and export subsidy costs. Under the FSA, the transfers are made from taxpayers through direct payments to grain and cotton producers and for loan outlays and storage.

Consumers benefit under the FSA because handlers and processors pay a lower market price for raw commodities. Under the Family Farm Act, consumers pay a higher price for less food. They also buy less of everything else because they spend more on food. The income transfer made through higher domestic food prices would not be allocated among consumers based on their ability to pay. The income transfer would become a regressive food tax because the share of income spent for food increases more for lower income families than higher income families.

The Family Farm Act includes provisions to increase food assistance benefits for lower income families who are participants in Federal food assistance programs to offset any increases in food prices experienced as a result of program commodity price increases. However, this would not wholly mitigate the effects of higher food prices on low income families because food assistance program benefits do not fully replace household food expenditures. Furthermore, current year benefits are based on the previous year's price increases. So, of the total increase in food expenditures likely to face the poor, only 75 percent would be compensated by food stamp benefit increases. The working poor who do not qualify for food assistance would bear the full brunt of food price increases.

Gross cash income is higher under the Family Farm Act because program crop receipts and milk are supported at a percentage of parity that rises from 70 to 80 percent. However, surplus stocks of crops and government outlays increase because the maximum percentage of set-aside prevents further acreage reductions. Thus receipts are greater than they would be if mandatory controls actually brought production in line with demand at the fixed price support levels. Surplus stocks and government outlays decrease under the FSA.

Although net farm income would be higher under the Family Farm Act throughout the study period, the income advantage is not realized by all farmers because of distortions created in the farm sector. Producers of unsupported commodities, particularly livestock and poultry, face lower returns because higher grain and oilseed prices result in higher production costs for them. And, aggregate net farm income does not reflect the effect that capitalization of higher returns into asset values has on returns to assets of subsequent entrants to farming. New entrants have to pay a higher price for assets, especially land, which means they accept a lower return to their equity. Tenants face immediate and sustained increases in rent so they do not share in the income increases that current land owners realize when price supports are increased.

There is a taxpayer burden under both policies. This burden can be expected to decline under the FSA given projections for supply and demand but

would increase under the Family Farm Act. Mandatory control programs reduce budget exposure only if production is reduced enough to prevent stock accumulation and if export subsidies are reduced or eliminated. At parity-based prices, surplus stocks are costly to hold. If exports are subsidized, some relief from the cost of stockholding is realized, but the study shows the cost of subsidizing exports exceeds the combined deficiency, diversion, and storage payments under the FSA. As currently written, the Family Farm Act is more expensive than the FSA.

The agribusiness sector is highly dependent on the quantity of commodities that are produced and marketed. For the long run the quantities produced and moving through the marketing system are larger under the FSA. The analysis shows that compared with 1987, input sales under the FSA would increase 2 to 14 percent depending on the particular input. By comparison, even with export subsidies, input sales under the Family Farm Act would decrease 3 to 14 percent over the study period.

The Family Farm Act would require a significant resource adjustment, as unemployed persons sought other employment and adjustments occurred in the use of capital and other resources. Because of reduced product flows, the loss of sales and reduced activity would have multiplier effects. By the mid-1990's the analysis shows 290 thousand to 600 thousand fewer jobs and a reduction in GNP ranging from \$15 billion to \$38 billion. About three-fourths of the reduction in GNP and employment would take place in metropolitan centers of the United States and one-fourth in rural areas. Thus, rural communities would be faced with offsetting forces--improved farm returns, but lower nonfarm economic activity. If a paid land diversion were to be used to reduce stocks by idling more land, the job and GNP losses would be greater.

Strict enforcement measures would be needed to assure the integrity of the Family Farm Act programs. Production would have to be controlled on every individual farm. Stringent import controls would be required. Import controls would have to extend beyond the raw products because there would be incentives to import processed products and substitute products. A cartel among exporting nations which the Family Farm Act puts forth as a means of allocating export market shares would require strict international enforcement and cooperation to work.

Neither a cartel nor export subsidy arrangements would improve trade relations. A cartel would hurt relations with developing country importers, and additional export subsidies would strain relations with competitors.

As technology or demand changes, farm production must adjust to accommodate the changes. If such adjustments are prevented by government programs, then either program costs increase greatly or the benefits of technology are denied to producers and consumers. In the past, pressures to accommodate demand or technology have led to abandonment of mandatory control programs.

Senator COCHRAN. One thing that this says, and I just wonder about your reaction is that those policies would result in the loss from 290,000 to 600,000 American jobs in less than 10 years. One-fourth of the jobs lost would be in rural towns. The cost to the taxpayer would go up. Poultry and cattle farmers would pay more for grain, and Government costs would increase to pay for storing or subsidizing the export of higher priced excess corn. And the gross national product of the country would be reduced from \$15 to \$38 billion. All according to this report.

I wonder whether or not, based on that analysis, if we should put a whole lot of faith and confidence in the economic analysis that you are doing right now of the situation in soybeans, and whether or not changing the policies as you recommend would really be beneficial or terribly detrimental.

Mr. WOMACK. It should be debated certainly, Senator. That is the best answer that we can give with the current situation. But these models are not infallible, nor are we. But we will report the consequences as they come from the models. But they are not infallible, and they are subject to assumptions that we have made and other error. And that is the best shot we can give right now.

I feel more comfortable with the ratios at the extreme—and the conclusions that we are making relative to this analysis and the validity of this analysis and whether it is focusing in the right direction. It really caught us by surprise after we finished it to find that it may be that we are actually running the corn prices too low relative to the other prices in the system. And we did not anticipate that when we started the analysis.

Senator COCHRAN. Thank you, Mr. Chairman.

Senator MELCHER. Senator Bond.

Senator BOND. Abner, there were some other features of your analysis of the production cutback approach. Perhaps just to clarify that, we have had these discussions before and I think there were some other aspects that you might want to mention that you projected from that particular proposal Senator Cochran asked about.

Mr. WOMACK. I have had an opportunity to talk with several Senators about it and Senator Harkin and his staff who worked with us closely when we tried to evaluate that. And very often when we run a farm program, we do not know what the consequences will be until we look at it. And therefore, we hope that in an environment that we can provide information that would lead to a better decision.

But I think the problem that we ran into in the Harkin-Gephardt farm bill is really down on the farm. And we found that to be more the case over the year, which was the livestock industry receiving a tremendous impact. And it had a cushion in it, but it turned out that the cushion probably was not strong enough. So instead of getting the profits that we had in the livestock industry, we would have probably gotten a 20 percent reduction in production of beef and pork and tremendous losses for 2 or 3 years.

So I would say that the bill had a problem down on the farm, besides some other criticisms that might be leveled at it.

Senator BOND. It would have had a significant impact on exports, would it not, without a subsidy?

Mr. WOMACK. The strategy that was considered by Senator Harkin and Representative Gephardt was to try to circumvent that problem with an export cartel. So we impose that under the assumption that it would occur. And that would have maintained the trade share wherever it was at the point in time we did the study.

But other countries would—

Senator BOND. That was based on an assumption that we could get into it.

Mr. WOMACK. That is correct.

Senator BOND. Moving back to the subject at hand. The chairman suggested that perhaps one of the solutions to some of the commodity imbalances we have today would be allowing some planting of soybeans on corn-base acres. Have you looked at what would happen if a portion of the corn-base acres—I do not know whether it is one-third, or what the magic number would be—would be allowed to go into soybeans with the farmer being protected on the corn base? What would the effect be on soybeans, corn and production?

Mr. WOMACK. We have not. I can give you some rule of thumb that I think would come out of the analysis if we did it. And we have not done it. I think the concern that one would reach quickly would be the price impact on the soybean industry because for about every 100 million bushels that we increase soybeans—let us say we do anticipate a \$6 bean price in the coming year—for every 100 million bushels we increase that, we drop our soybean price 60 to 80 cents.

So let us say it is 80 cents. Instead of a \$6 bean price next year, we get \$5.25. Now people who have good corn land and good bean yields certainly might like that and be a winner. But the Southeast would begin to find themselves squeezed on that kind of a price impact.

Senator BOND. It sounds like anything we do, really, to increase the production of soybeans here is going to have more of an impact on the prices received by American farmers than it is on the land that is going into production in South America.

Mr. WOMACK. I think the point, if I have not made it clearly, Senator, is that is we are going to—

Senator BOND. I am sure you have made it clearly. It is just my understanding that is not quite so clear.

Mr. WOMACK. Well, I may not have made it clearly. I think that we are in a position that if we continue—our analysis suggests that if we are going to continue to use heavy PIK certs and have \$2 corn—and we really want that from now until 1990—in order to make this situation competitive for the U.S. soybean industry, we are going to have to pump some money into that industry to make up the difference.

They need a higher price to make them produce more. But you need a lower profile price in the world market. The only way to cover that gap, if we want \$2 corn, is to do the same thing for soybeans that we are doing for corn. Otherwise, we do not win, and they win continuously.

Senator BOND. But something like a \$5.02 marketing loan would—

Mr. WOMACK. It would be helpful.

Senator BOND. That would help.

Mr. WOMACK. That would move in the correct direction. And it may keep us from being at zero change by 1990, and at least pull some area in and hold it in.

Senator BOND. Is the loan support price downside protection that encourages bringing in land in South America? Or is that basically—is that a relevant factor?

Mr. WOMACK. Yes, sir, it is.

Senator BOND. So that really is a negative marketing. But a marketing loan—moving from that to a marketing loan would be a significant positive step along with some of the others you recommended?

Mr. WOMACK. I think it would be. I do not think a \$5.02 is quite far enough to make up the difference for a \$2 corn price. But it is a help. And in good years—we have them about two times out of three—we may have below \$5.02 prices, then the farmer is protected.

Senator BOND. Have you come up with a level that Senator Heflin might want to be willing to consider if \$5.02 is—I can see some people in the room back here might up the ante. But what would you bid? While we are at it, we might as well get it all settled.

Mr. WOMACK. We have run analysis at \$5 and \$5.50 and \$6. And right now a \$6 marketing loan would make sense. Next year a \$5.50 marketing loan would make sense. Because as those stocks of corn come down, that ratchet can also take place. But it may take as much as a \$6 marketing loan to make up the price differential.

Remember I said that it takes \$7 beans to get 68 million acres. So if we are going to pay a lot of money in feed grain and wheat, we cannot hardly get out of adding some to the pot for soybeans in the near term, or else we reap the disadvantage. And the disadvantage is as big as States in the Midwest that we are losing.

Senator BOND. What do you think the impact of that marketing loan would be? Would they not just hedge the production on the futures market, on our futures market?

Mr. WOMACK. We are suggesting to our farmers now to hedge.

Senator BOND. No, I mean the South Americans. Could they not—

Mr. WOMACK. Well, that is the problem. Once you get \$6 beans it is a signal for us and it is a signal for them. So we have got it, and they are going to react to it.

But the question is whether if you had a \$4.50 marketing loan and that is as much as we get, it would not be a big deterrent if we have \$6 bean price. And our forecast in front of us are for higher than \$5. But in any good year, it could be down very low.

But the lower the marketing loan gets in this environment, the less protection it would be. So I would be very concerned about the level of the marketing loan. And below a \$5.02 the current situation is not likely to be extremely advantageous. It would put a signal, but it may not be the signal that stops the action.

Senator BOND. \$5.50 would be better?

Mr. WOMACK. Much better.

Senator BOND. Thank you, Dr. Womack.

Senator MELCHER. Senator Harkin, did you have anything more?

Senator HARKIN. Yes. I did not know, Mr. Chairman, we were going to get into discussion on the different farm bills. But as long as the barn door is open, I figure, what the heck, might as well go through that barn door.

My good friend Senator Cochran has a study here that came from the Economic Research Service. I have not had a chance to look at it; I just got a copy of it. But I have got to say, from reading just the first page of the summary, that obviously ERS either did not read the Family Farm Act or they do not really understand it.

Let me just read this paragraph here. They say, Thad, that "Government outlays would increase under the Family Farm Act because excess production would either have to be stored or subsidized into the export market. Production, particularly of corn, would continually exceed use because high price supports would make producing profitable and the maximum set-aside percentage would prevent program officials from being able to increase the amount of idle land enough to control production. Even with the acreage of idle land at maximum levels, corn stocks would continue to grow. Under the Family Farm Act provisions, the supply-demand imbalance would worsen rather than be solved."

That indicates to me there that they just simply do not understand it, because the program was a bushel-based program with marketing certificates. There was a set-aside provision in there to be used to help lessen that impact. But the fact is, it was marketing certificates, bushel-based. And there would not be any more than a certain amount that you could market at that loan rate, period.

Now obviously, that is one of the contentious issues in the bill—the fact that it is mandatory. But obviously, we are going to let farmers vote on it. But the fact is, there would not be a supply-demand imbalance because you would control it through the use of marketing certificates on a bushel base.

It was not used as a set-aside to lower it. So that indicates to me that ERS did not even look at the bill. I do not know how you can say that the production would go up. Because if the prices go up, if I had marketing certificates to market my corn, I could not market any more than my marketing certificate said, period. So I could not produce any more.

Senator COCHRAN. You could not market any more. You could produce it.

Senator HARKIN. You could not market it, period, unless you had the marketing certificates. So it would not do you any good to produce it. What would you do with it? I suppose you could burn it in your furnace maybe or something like that. And I am always willing to look at a program which would use excess production to make ethanol or the like. I would be all for that, but not in the normal course of the marketing of the grain.

I have not seen the rest of the report, but that alone is enough to indicate to me that ERS did not really look at it all that closely.

Anyway, regarding the Food Security Act of 1985 and exports, and whether higher prices hurt our exports, I think Professor Womack did answer that we envision agreements with other countries that would limit subsidies, that would limit marketing. On this subject, I have talked to officials from the European Communi-

ty to South America, to Australia and New Zealand where I visited earlier this year.

Now I have got to admit, the Australians are not too keen on it. New Zealanders are somewhat. But most of them are interested in reaching those kinds of agreements with us. And if that is the case, then I think we help agriculture not only in America but we help agriculture in Third World countries.

I guess what bothers me about the Food Security Act is that we are looking at increasing exports all the time, but at what cost? I do not have the figures with me. If I had known we were going to get into this debate, I would have brought them with me. But it seems to me that our exports are about back to the level where they were before the 1985 farm bill, back where they were about 1982. We are just about back that far in terms of volume. But the value is still 30 percent below what we were getting then.

And you are right, if we have \$2 soybeans, we can sell all the \$2 soybeans worldwide. We will drive everybody else out of business.

But I do not know what happens to our farmers. The fact is that the Food Security Act has cost us billions of dollars. Last year it was \$26 billion in Government payments to farmers. In my opinion, it is a very inefficient, ineffective way.

I still say agriculture is not going to be healthy until farmers get a return from the marketplace. How healthy can any industry be when 40 cents, almost 50 cents out of every dollar of farm income comes from a Government paycheck drawn on a deficit account? That is what we are doing now. We are not getting it from the taxpayers like they said here. The taxpayers are not subsidizing it. It is coming from the borrowing of the Federal Government. We are borrowing from the kids and grandkids. So I just do not see that as a healthy system.

We can go around and around on this, and we will. This is going to be debated, Thad. We are going to debate this thing again when the 1990 farm bill comes up and we must determine whether we want to continue on this way. I think there are some things in the Family Farm Act that need to be changed. Professor Womack mentioned about the cattle thing. A lot has to be changed.

But I would still submit that whatever successes are had in the Food Security Act of 1985 have come about through massive, massive, massive Government payments. And if you give me enough money, I will make any program work. I guess that is my bottom line on that. You just give me enough money and we will make anything work.

That is my way of responding to some of the comments that were made on the differences between the Family Farm Act and the Food Security Act.

Leaving that and getting back to the present situation at hand. I think that Professor Womack and FAPRI have come up with an interesting approach. We always look at price, but we do not always look at the balance and interrelationships between the different kinds of crops and what that means.

And correct me if I am wrong, Professor Womack, but what I heard you saying was that South America is going to continue to increase its acreage whether we have high prices or low prices. The real question for us is, how do we keep the increase in their acre-

age from totally exceeding ours? How do we at least keep them somewhat parallel or level?

Mr. WOMACK. That is correct. And what we have done is just given a signal to continuously expand; \$4.80 beans, \$1.50 corn is expand; \$6 beans and \$2 corn is expand. But only—\$6 beans and \$2 corn is expand our bean farmers, but \$4.80, \$1.50 is not. So they have a signal to go as long as that ratio is high. And it could be high with low bean prices or high bean prices and \$2 corn. So we still put the finger more on the side of how we are managing our excessive stocks of feed grains and the level of certs that we are using, and the cost of that relative to the cost of storage, holding a little more storage and being a little more frugal with the amount of PIK certs that we are using.

Senator HARKIN. What must be looked at is this relationship between the different crops, rather than the level of the price.

Thank you very much, Mr. Chairman.

Senator MELCHER. Thank you very much, Dr. Womack. We appreciate your testimony.

Mr. WOMACK. Thank you, sir.

Senator MELCHER. Our last witnesses will be called in the form of a panel: Wayne Bennett, president, American Soybean Association from Lonoke, AR; Rene Niese, vice president, National Farmers Organization from Corning, IA; C. Lockwood Marine, vice chairman, National Soybean Processors Association from Fort Wayne, IN; and Floyd Anderson, president of the National Sunflower Association from Brocket, ND.

Please proceed however you have got it arranged. Wayne, are you first?

STATEMENT OF WAYNE BENNETT, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, LONOKE, AR

Mr. BENNETT. I think they have me first on the list. Senator, it is a pleasure to be here. I am Wayne Bennett, a farmer from Arkansas, where I raise soybeans and rice. I am president of the American Soybean Association.

We have a statement we would like to put in the record. And since we have been cut down to about 3 minutes, I would just like to make a few statements, primarily about the marketing loan.

We are convinced that the marketing loan is the only program that we can go to that will discourage the South Americans to keep expanding. At the present time when I put my soybeans into loan, the loan rate is \$4.77 per bushel. By the time you add storage cost and interest rates, when the South Americans sell their crop, they are getting \$5.50 or close to that. So they know that our beans will not come out of the CCC loans until they get in that range. As long as they think they can make money at that, they are going to continue to expand soybean production.

So we know that we are not going to realize any higher prices for the American soybean farmer under a marketing loan. The marketplace will take care of that. But all we will be doing is telling the South Americans, if you want to continue to expand, you are doing it on your own. It takes them 2 or 3 years to get land in production.

And I think if a South American banker knew that farmers there were going to be at the world price and not at our support price—and our support price means more to them than it does to me—that they will take a second look at expanding soybean production. We are not going to stop them, but hopefully we can slow down their expansion.

And with that, I will pass it on to the next speaker because we only have a few minutes. Thank you.

[The prepared statement of Mr. Bennett follows:]

TESTIMONY OF WAYNE BENNETT
PRESIDENT
AMERICAN SOYBEAN ASSOCIATION

before a
joint hearing of the

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
& STABILIZATION OF PRICES
and

SUBCOMMITTEE ON DOMESTIC & FOREIGN MARKETING
& PRODUCT PROMOTION

COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY

U.S. SENATE

MARCH 18, 1988

I am Wayne Bennett, a farmer from Arkansas, where I raise soybeans and rice. I am president of the American Soybean Association (ASA). ASA is a national nonprofit organization with members in 29 states and receiving financial support from 420,000 soybean farmers.

Many say "the 1985 Farm Bill is working." It is good news that farm income and farm exports are up and surplus stocks are down for many crops. But the 1985 Farm Bill is not working for soybeans.

The problem facing U.S. soybean farmers isn't low prices and burdensome surpluses. We hope prices continue their upward trend so American farmers can make a good profit from today's market.

Instead, the problem is that U.S. soybean farm policy is encouraging the rest of the world to rapidly expand soybean production and exports. A dramatic increase in soybean acreage overseas is cutting the U.S. share of the world market and reducing U.S. farmer income. Today, I will discuss our most serious foreign competitors, namely the Brazil, Argentina and the European Economic Community (EEC).

OVERVIEW OF THE U.S. SOYBEAN CROP

This year USDA estimates that U.S. soybean farmers harvested a 1.9 billion bushel crop on 56.4 million acres, worth \$10.5 billion. Exports of soybeans, soybean meal and soybean oil represent over half of farmer income and the greatest potential growth market

for the future. Exports for marketing year 87/88 are projected to be valued at \$6.7 billion.

There are temporary bright spots in the soybean market today. Unexpected demand surprised the market when the Soviet Union purchased over 2.1 million metric tons (MMT) of soybeans and soybean meal.

Soybean oil exports are picking up due to government-subsidized sales under the Export Enhancement Program (EEP). India's worst drought in 100 years means that nation needs vegetable oil, and they have been buying from us assisted by the EEP program.

But these positive signs were largely unexpected. Soviet purchases and eligibility for USDA's EEP program are ultimately contingent on political decisions. And India's drought was even less predictable than politics. This unexpected demand masks the fundamental challenges faced by the U.S. soybean industry today.

CHALLENGE #1: INCREASING FOREIGN SOYBEAN PRODUCTION

Consider the facts. In 1982 the rest of the world grew only 34 MMT of soybeans. U.S. production was 59.6 MMT (2.2 billion bu). Put another way, the U.S. grew 61% of the soybeans in the world. Brazil and Argentina, two of our competitors today, grew 20%. And the EEC produced 0.03% (26,000 MT).

By 1987, the world changed. Foreign soybean production grew 44% to 49 MMT. EEC soybean production grew by an astounding 8000% to 1.3 MMT. U.S. production fell 13% to 52 MMT (1.9 billion bu). The U.S. now grows 51% of the world's soybeans.

Foreign soybean acreage is increasing too. Since 1982, Brazil and Argentina have increased soybean acreage by 38% (10 million acres). At the same time, U.S. soybean acreage has fallen 19% (13 million acres).

Since 1982 total world soybean acreage has increased only slightly. The U.S. is growing fewer soybeans as our competitors expand.

Why are these shifts occurring in the world of soybeans?

First, I will explain why soybean acreage is expanding in Brazil and Argentina. Second, I will review the EEC's internal oilseeds policy and its impact on U.S. competitiveness and soybean market share.

BRAZIL & ARGENTINA

Brazil and Argentina both have tremendous virgin acreage which is available for future soybean production. In the near future, oilseed analysts estimate that 40-50 million acres of land can be brought immediately into soybean production. That's equal to about 1.4 - 1.8 billion more bushels of soybeans. The long-term potential is even greater, with over 270 million acres available in Brazil's Cerrados (Portuguese for savanna) region alone. That's more than five times the size of California and five times the total soybean acres in the U.S. Currently only 10% of the Cerrados arable land is under production and it accounts for 24% of Brazil's agricultural output.

There are several reasons that foreign soybean acreage is expanding.

First, the U.S. soybean farm program has provided a price floor to world soybean prices, encouraging foreign expansion.

By maintaining a non-recourse loan program, the U.S. government demonstrates that whenever the world price approaches the soybean loan rate, CCC will store U.S. soybeans, supporting the soybean price here and around the world. As we build stocks in times of low price, Brazil and Argentina don't stockpile, they find markets for their production. We store. They sell.

Since the U.S. soybean farm program supports the world price for soybeans, our competitors see little risk in increasing investment in soybean expansion. The U.S. soybean farm program currently provides our competition with an insurance policy against very low prices in the future. Designed for American farmers, it is also benefitting the competition overseas.

Consider the Brazilian farmer who wants to clear more virgin land for soybean production. He and his banker know that it takes several years to bring virgin land into soybean production, but the return is worth it. It takes years because Brazil has an unusually acid soil type which must be modified to accommodate soybean production. After one year to clear the land, limestone is applied for 1-1/2 to 3 years without crop production to condition the soil suitably for soybean planting.

Thus, a time lag exists of 2-1/2 to 4 years before South American farmers can get any economic return from clearing virgin land.

The Brazilian farmer and his banker are willing to take this risk to bring virgin land into production ... without any cash income for several years from the land .. because both know the U.S. non-recourse soybean loan program allows accurate prediction of the minimum world soybean price in the future. Since Brazil and Argentina are efficient soybean producers, this minimal risk provides a strong incentive to expand.

A second reason South American soybean production is expanding is the cash price relationship between corn and soybeans. If the price of soybeans is more than 2.4 times the corn price, farmers in Brazil and Argentina choose to grow soybeans. If the price ratio is less than 2.4:1, they choose corn.

Since the cash price of soybeans (about \$6.00/bu) is more than 2.4 times the corn cash price of (under \$2.00/bu), farmers in Brazil and Argentina see a clear financial incentive to grow soybeans over corn.

Heavy foreign investment in Brazil and Argentina's agricultural infrastructure is a third reason for increased foreign soybean production in these two countries. The Soviet Union is helping to finance port improvements in the Argentine port of Bahia Blanca, a major soybean export port. Brazil is seeking foreign investment for construction of what oilseed analysts have informally dubbed "the soybean railroad." This new \$1.5 billion railroad will link prime soybean producing areas to Brazil's largest soybean export ports. It would provide farmers access to inexpensive transportation to export facilities from the Cerrados area discussed earlier.

In 1986, the World Bank launched the first part of an overall program to increase agricultural production and exports in Argentina with a loan of \$350 million. These funds are being used to stimulate expansion of soybeans and other crops, according to public World Bank statements. In addition, we are aware of over \$1.5 billion in pending loans to Brazil from the World Bank that will likely lead to increased soybean production.

The Japanese are investing heavily in broiler production in Brazil. Since poultry is the largest market for soybean meal, Japanese investors appear to expect ample feed supplies in the future.

EUROPEAN ECONOMIC COMMUNITY

The European Economic Community (EEC) has long been our most important foreign market for soybeans and soybean meal. In 1981 we sold almost one-fourth of our total

crop to the EEC at a value of over \$3.5 billion. There are two primary reasons for our success in exporting soybeans and soybean meal to the EEC.

First, the EEC has historically lacked self-sufficiency in feed protein and vegetable oil. Second, the U.S. gained duty free tariff bindings to the EEC market in 1962 at the end of the Dillon Round of Multilateral Trade Negotiations. These duty-free bindings remain in effect today.

In recent years the EEC has embarked on a major program to boost its self-sufficiency in oilseeds and protein products in a way that nullifies and impairs its duty-free tariff bindings on soybeans and soybean meal. Last year the EEC guaranteed its farmers over \$16 per bushel for soybeans and over three times the world price for rapeseed and sunflower seed. Similar price guarantees were offered for protein-rich crops like edible beans, field peas, and lupines.

Data gathered from Europe indicates that French farmers last year made over \$200 per acre (over \$6.00 per bu) in profit growing soybeans and only somewhat lesser amounts growing rapeseed and sunseed. Yet they have a higher cost of production than U.S. farmers.

Predictably EEC farmers have responded to such lucrative profits by sharply increasing EEC oilseed and protein production. In 1987 EEC production of rapeseed, sunseed, and soybeans totaled over 11 MMT, over 360% of the 1981 level.

EEC policies assure the consumption of the EEC-origin oilseeds and protein products before imports of U.S. soybeans and soybean meal. This is done through a system of internal oilseed processor subsidies whereby the EC processor is paid a bonus to buy EEC produced oilseeds instead of imports.

As a result of these subsidies, U.S. exports of soybeans and soybean meal to the EEC have declined by \$1.4 billion since 1981 ... a 40% decline in value. The volume of our exports to the EEC has declined by over 35% during the same period. ASA has filed a Section 301 Unfair Trade Petition against the EEC subsidies which the Administration has accepted and is pursuing. However, achieving the elimination of the unfair subsidies will not be easy or prompt.

We greatly appreciate the leadership of Chairman Leahy and others in support of ASA's 301 case. Soybean farmers applaud Senate passage on March 4 of Senate Concurrent Resolution 94. The Resolution expresses Senate support for ASA's Section 301 Petition and urges

the Administration to aggressively pursue elimination of the EC's oilseed subsidy regime.

CHALLENGE #2: LOSS OF U.S. MARKET SHARE

Foreign soybean expansion and lost U.S. acreage have contributed to an erosion of U.S. world market share in soybeans, soybean meal and soybean oil.

Yet world demand for vegetable protein and oil is growing at the rate of 4% per year. We are losing market share in a growing market!

If the U.S. had maintained its 1979/80 world market share of soybean trade, U.S. exports of soybeans, soybean meal and soybean oil would be 378 million bushels more than in 1986/87, the marketing year just ended. That's more than the entire 1987 production from Iowa! Every 1 point loss in market share at today's world export volume equals 22 million bushels of lost exports. (See attached chart on market share loss.)

At \$6.00 per bushel of soybeans, that's a \$2.2 billion loss in income to U.S. farmers.

Soybean Oil: In 1979/80, the U.S. was the number one supplier of soybean oil in world trade. We had a 38% market share, compared to Brazil and Argentina, which had a 16% and 3.5% market share, respectively.

By 1986/87, the U.S. fell from the number one to number three supplier of soybean oil to the world. We had a 13% market share, while Brazil and Argentina overtook us with market shares of 24.5% and 19%, respectively.

Soybean Meal: Our share of the world market for soybean meal has fallen similarly. In 1979/80, we led the competition with 42% of the world market. Brazil and Argentina had a 32% and 2% share, respectively, of the world market. By 1986/87 our market share dropped to 25%, while Brazil increased to 33% and Argentina to 14%.

Soybeans: In 1979, the U.S. supplied nearly 84% of the soybeans in world trade. But Brazil and Argentina had a little over 12% combined. By 1986, our market share had shrunk to 70% while our South American competitors took close to 20%.

This decline in world market share must be reversed so that American farmers ... not our competitors ... can capitalize on a growing market.

SOLUTIONS TO THESE SOYBEAN PROBLEMS

American soybean farmers strongly support enactment of a soybean marketing loan program to stem expansion of foreign soybean production.

At the 1988 ASA Spring Board Meeting, our Board of Directors voted unanimously to strongly support congressional passage of a marketing loan this year to become effective for the 1989 crop and beyond. The Board felt that implementation of a marketing loan for the 1988 crop could be of concern to the many farmers who have already developed their marketing plans for the 1988 crop and will soon be in the field planting.

Why is a soybean marketing loan good policy?

A soybean marketing loan effective next year would send a strong signal to our South American competitors. When they clear the land they would experience world price uncertainty by the time that land comes into soybean production in several years.

By removing the floor under world prices now supported by the current nonrecourse soybean loan program, a marketing loan would inflict price risk on our competitors. It would continue to provide income support to U.S. soybean farmers, but remove price guarantees for foreign producers.

Under the current program, a farmer can now take out a soybean loan, with his soybeans as collateral, at the loan level. This loan matures after nine months, at which time the farmer must decide whether to repay the loan plus accrued interest or forfeit his soybeans to CCC as payment of the loan. This is how CCC accumulates soybeans in times of low prices.

A soybean marketing loan could work in the following manner. At his option, a farmer could take out his loan from USDA at the loan rate, with his soybeans as collateral, and repay the loan at the lower of the loan rate or the world price. Thus, in times of low price a farmer would net at least the loan rate. In a rising market, he could repay the loan at the lesser of the loan rate or the world price, hold his soybeans and sell them at a higher price, thus netting above the loan level.

A soybean marketing loan would help the U.S. regain lost market share by allowing U.S. soybean prices to be truly competitive in world markets. No longer could foreign competitors undersell us for long in the world market without penalizing themselves with lower prices too.

As the Administration continues work on the Uruguay Round of GATT negotiations a marketing loan would help increase U.S. leverage in the process. It would send an important signal to our competitors that we are prepared to go head to head with them to compete for markets. A marketing loan would provide our competition with a strong incentive to come to the negotiating table to develop a sound agreement, an agreement that reduces or even eliminates all trade distorting production and export subsidies for oilseeds and protein crops.

There has been talk about the possibility of allowing farmers the option of planting soybeans on their permitted program crop acres, or even planting soybeans on setaside acreage.

For the record, ASA opposes letting farmers plant soybeans on setaside acres. In addition, our Board of Directors recently voted to oppose planting of soybeans on permitted program crop acres.

Looking to the future, American farmers hope they have the opportunity to continue to grow soybeans profitably as one of their important crop options. Farmers need to spread risk among crops as much as possible. It is better for the soil to rotate crops and helps us weather market price swings of specific crops.

CONCLUSION

In conclusion, the facts today about the soybean challenges are more compelling than ever. More soybean acres will be grown somewhere in the world. They will be produced to meet growing world demand.

The question is who will produce them and where? Will the benefit of these extra acres be added income for U.S. farmers or South American producers?

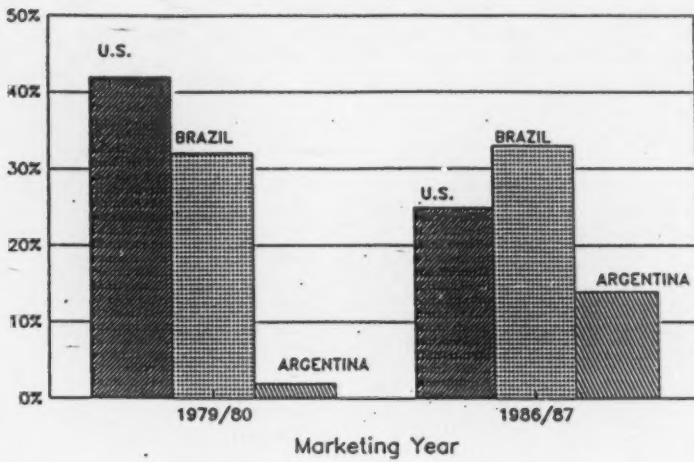
If South America continues to expand acreage at the same rate it did this fall (11½ expansion), it will produce more soybeans than the U.S. by the mid-1990's. If this trend of foreign expansion continues, the U.S. will have lost its dominance in the world market. We will have allowed one of the nation's most profitable crops to be lost, with foreign expansion abetted by U.S. farm policy and GATT-illegal subsidies.

Given this trend, the U.S. could well become a residual supplier of soybeans to the world market by the end of this century. U.S. farm policy will have forced American farmers to hand over future opportunities for soybean profits to foreign producers.

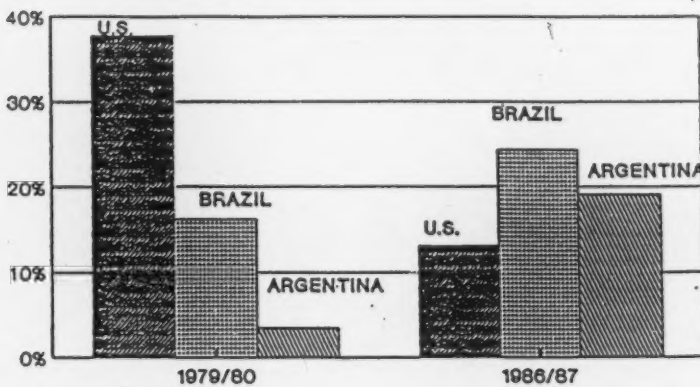
American soybean farmers are working hard to streamline and increase efficiency. They are reducing costs and improving their marketing strategies. They are developing new uses, such as soybean oil-based ink, for their products. Soybean farmers are doing their best to be ready for the future and take on the competition. We look forward to working with you to help make this possible.

Thank you.

SHARE OF WORLD SOYBEAN MEAL TRADE U.S. VS SOUTH AMERICA



SHARE OF WORLD SOYBEAN OIL TRADE U.S. VS SOUTH AMERICA



Marketing Year

Source: USDA data
Prepared by American Soybean Assn.

Senator MELCHER. Mr. Niese.

STATEMENT OF RENE NIESE, VICE PRESIDENT, NATIONAL FARMERS ORGANIZATION, CORNING, IA

Mr. NIESE. Thank you, Mr. Chairman. If you will allow our written testimonies on behalf of the National Farmers Organization, National Farmers Union, and American Agriculture Movement to be included as part of the record, I will summarize those significant points that we believe would be of interest to the subcommittees here this morning.

Senator MELCHER. Yes, we do have the testimony of the Farmers Union and the American Agriculture Movement and all will be made part of the record.

Mr. NIESE. Thank you, sir. On behalf of our several organizations representing soybean producers nationally, we want to take this opportunity to thank you for appearing before the chairman this morning, as well as the subcommittee members. We appreciate the fact that Senator Harkin is here this morning because the State of Iowa is always one of the largest, if not the largest, soybean producing State in the United States. Hopefully, this would have a significant impact on whatever decision is made by the subcommittee and by Congress as a whole.

Senator HARKIN. Thank you. One of these years we will beat Illinois. [Laughter.]

Mr. NIESE. Our national headquarters is located in southwest Iowa and we appreciate the fact that the Senator, as well as his staff, have been very responsive on information we have requested.

As organizations representing soybean producers, we all three are opposed to the marketing loan program for soybeans at the current loan levels. We prefer to get our income from the market and not from the U.S. Treasury. We strongly feel that the continuing discussion of this marketing loan proposal has contributed to the recent break in soybean prices that we have seen in the market.

We suggest that before we abandon a price support system that was originally designed to provide a market tool for producers and place a floor under the market price at a very modest cost to the Government, we should take a long term look at several critical elements.

Mr. Chairman, as a soybean producer from the State of Iowa, I am very concerned about two things. First, the significant influence the market loan concept would have on my markets in Iowa either in 1988 or 1989. Each time since this past December the word that has been reaching the market concerning discussions here in Washington about the marketing loan concept for soybeans, our market has gone down. Likewise, it would appear that each time the decision was made on the House side not to pursue the discussion further, that we have seen our markets rebound.

If I may just take a second and quote some specific examples. On January 24, we saw the March futures for soybeans at \$6.32 per bushel. The information was received in the market that Congress was discussing authorized planting of soybeans on diverted acres as well as the marketing loan concept for soybeans. Between January

24 and February 2, we saw a market decrease of 35 cents a bushel and the market closed at \$5.97.

On or about February 2, according to our grain department, the subcommittee on the House side met but took no action. We then saw a rebound in the market of about 36 cents a bushel. And it closed on February 17 at about \$6.33½. Following that, it peaked around March 1 at \$6.35.

And then discussions were resumed here in Washington by the House subcommittee about the marketing loan concept in soybeans and we saw a decrease of 32 cents a bushel. Since that time, the committee meeting was called off and through the close last night, the market is back up into the \$6.33¾ range, or an increase of 30 cents a bushel.

With your permission, as well as other subcommittee members, I would like to include this information as additional testimony for the record.¹

The second area that concerns me as a soybean producer is that we are presently negotiating, as well as many other farmers, short term credit with our lenders. My lender specifically wants to know what my cash-flow requirements are. He is asking me to fill out cash-flow statements, financial statements, and wants to know my marketing strategy. To be more specific, he wants to know how I am going to repay the principal and interest under the loan.

From that standpoint, it is difficult to make solid business decisions on planting intentions between corn, soybeans, and even last fall, Soft Red Winter wheat, which is an option for us, and to convince my lender to become a partner in our operation when we are not sure of the market impact of the congressional decisions that have not been made in this specific area.

The primary thrust of the marketing loan concept is to increase exports, reducing prices of the entire crop below the announced price support levels. We believe that the program proposal, as it is being discussed, will not send a positive signal to producers to increase their soybean acres nor to producers to double-crop soybeans beyond their present level. From a pure risk management standpoint, the risk of limited yield is not offset by the proposed price opportunity under this new concept.

From the export standpoint, we firmly believe that our Government must be involved in the national level. We must be aggressive in our negotiations of trade rules and arrangements for trade agreements with other countries. We believe if the decision of the committee is to take on the EEC and those who produce soybeans in Argentina and Brazil in a price war, that we would do better with a targeted export subsidy than we would with a marketing loan concept.

In summary, we are opposed to the marketing loan because it removes the price support floor and destroys a basic marketing tool that we now have.

Second, the slight oversupply that may be caused will have a significant influence in lowering our market levels.

¹ See page 119 for the referred to information.

Third, the budget exposure would increase dramatically because historically we have somewhere between 15 and 25 percent participation in the loan program. If our prices drop down into that area, or below Government loan, we could see a significant increase in cost; most of the soybeans produced would go into that program.

Overall, we would ask the subcommittees not to support the marketing loan concept but to give us, as soybean farmers, an opportunity to retire debt through the profit opportunities that now exist. We urge you to look at other alternatives that will send a positive message to the competitors that we have in the world market for soybeans, and at the same time protect us as soybean producers out in rural America today.

I want to thank you, Mr. Chairman, as well as the subcommittee members, for the opportunity to appear today on behalf of our three organizations.

[The prepared statements of Mr. Niese with an attachment, National Farmers Union, and the prepared remarks of David Senter, National Director, American Agriculture Movement, Inc., follow:]

STATEMENT OF RENE NIESE, VICE PRESIDENT,
NATIONAL FARMERS ORGANIZATION

Mr. Chairmen and members of the Subcommittees, on behalf of the membership of National Farmers Organization, the National Farmers Union and the American Agriculture Movement, I want to express our appreciation for the opportunity to appear before you today. In response to your request, the three organizations, all of which have substantial numbers of dues-paying members who produce soybeans, have agreed that I will endeavor to summarize our views in this brief hearing. The statements of the American Agriculture Movement and the National Farmers Union are furnished herewith for the record.

As grain and soybean producers, we are opposed to the marketing loan program for soybeans at current loan levels. We prefer to get our income from the market, not from the U.S. Treasury. We strongly feel that the continuing discussion of this marketing loan proposal has contributed to a recent break in soybean market prices and, if adopted, would defeat the basic purpose of the soybean price support program.

Before we abandon a price support system that was originally designed to provide a marketing tool for producers and place a floor under the market price at a very modest cost to the government, I believe we should take a long-range look at several very critical elements. The marketing loan approach may benefit those who profit from processing or moving large quantities of commodities at low prices, but the evidence to date raises serious questions about its effect on net farm income.

A recent publication of the American Soybean Association contained the following statement:

"For soybeans to overcome the program advantage of corn, soybeans would have to average over \$7.30 per bushel, probably more. Even at \$7.30 soybeans, many farmers might be unwilling to plant less corn because the government would penalize them by reducing their corn base in future years."

Soybean plantings have been scaled back in some of the double crop areas of the Southeastern states as well as in the Midwest where soybeans compete with corn acreage. There is only one reason for this reduction in planted acreage of soybeans and that is price. A rule of thumb used by USDA over the years in establishing price support levels for corn and beans was a 2.5 to 1 ratio. Since the 1988 price support for corn is \$2.93 per bushel, soybeans should be supported at \$7.32 per bushel to create a reasonable price balance.

The Marketing Loan Concept

Proponents of the marketing loan concept maintain that it will send a message to the South Americans encouraging them to limit their production, and permit the U.S. to regain some of our slippage in the world market. The U.S. season average prices for 1985 soybeans was \$5.42 per bushel and the U.S. had 77.2% of the world market; the 1986 season average price was \$5 per bushel and the U.S. had 71.9% of the world market; 1987 average market price was \$5.07 per bushel and we had 72% of the world market. A policy based on cutting our domestic prices is obviously not the solution to increase our export share in the world market, nor is it conducive to increased U.S. plantings if that is your goal.

Carryover stocks of soybeans going into the 1988 crop year

amount to 315 million bushels compared to 436 million bushels of carryover going into the 1987 crop. While the reduction in carryover has been sufficient to have a positive effect on our current domestic price, we are not in a critical market shortage situation and we have sufficient stocks to meet immediate market needs. As stated earlier, a 1988 market expectation in the \$7 range would have a positive effect on increased plantings for soybeans without destroying the current market outlook.

As we view it, the primary thrust of the marketing loan concept is to increase exports by reducing prices on the entire crop below the announced price support levels. Although not announced, most likely the price support level for the 1988 soybean crop will be \$4.53 per bushel which we think is much too low. Adoption of the marketing loan concept by the Congress would be saying even this price is too high to compete in world markets.

Soybeans, like wheat and feed grains but unlike cotton and rice, are grown in almost all agricultural states. Historically, 15 to 25% of the soybean crop is placed under price support loan. Under the marketing loan concept virtually all of the soybean production would be covered by the marketing loan when market prices fall below the loan level.

Experience with Other Commodities

There are many who believe that the marketing loan program is responsible for the favorable market situation in cotton and rice. We think these are fair questions to ask: What would the results have been under a regular loan and target price/deficiency payment program with targeted export payments only on the export portion? How would this cost compare with the total cost of the marketing loan concept now in effect for cotton and rice?

The substantial increase in exports for cotton and more modest increase in rice exports during the 1986/87 and 1987/88 marketing years was almost entirely weather related. Because of a drought in almost all of the major cotton producing countries (China, India, USSR, etc.) yields and harvested cotton acreage in the countries dropped dramatically during this period. Rice production in Thailand, the largest rice producing country, fell by more than 20% during the same period because of weather.

When we look at our experience in the world market over the last three or four years, we do not believe that anyone would reach the conclusion that simply lowering domestic prices is the answer to increasing exports. Even if our volume does go up, our balance of payments is greatly minimized, if not negated, because of the cheaper price. Our export share in the world market for wheat and feed grains has declined from pre-1985 levels in spite of tremendous efforts to lower market prices through the use of generic certificates, direct payments to producers and subsidy payments to exporters under the Export Enhancement Program (EEP). In addition, when you consider the total Treasury costs attributable to exports for each of these items, it may have cost us more than we received from export sales. Perhaps producers and taxpayers would all be better off if we maintained domestic prices for our producers and simply gave away a portion of the crop to needy people or targeted subsidies to the export portion of each crop.

Recommendations

We do not wish to leave any misunderstanding with regard to the importance we place on exports. Let me make it clear that we

strongly believe that foreign trade must be an integral part of our national policy and government must be a primary actor. We are simply saying, however, that lowering domestic prices on our total production and attempting to offset these reductions with huge government payments is not the answer.

Rather, aggressive negotiations of trade rules and arrangements, through trade agreements with other countries to sell at reasonable prices, appears to offer a better, more affordable opportunity. Regardless of how efficient American farmers are, they cannot compete with governments of other countries, nor can we expect to continue relying on the Treasury for our farm income.

There is a very fine line between excessive supply and a "desirable carryover" as indicated above. The 1988 soybean planting intentions will be announced March 31. Preliminary USDA estimates are projecting an increase of approximately one million acres above 1987 plantings. An increase of this size would probably not break current market expectations; however, an increase by as much as 2 to 2 1/2 million acres would undoubtedly break the market.

Mr. Chairman, if it is the decision of this committee to take on the EEC or the Argentines or Brazilians in a price war, why not consider a targeted export subsidy. It has worked very well, is much more favorable to the producer, and sends a much stronger message to other countries. Also, let us remember that, from a producer standpoint, soybeans are finally in a favorable supply situation and price expectations for 1988 look much better. In our judgement, the marketing loan concept would undermine this favorable market outlook and will cost an enormous amount of money. Under a targeted export subsidy approach, we could maintain a price support in the \$7.00 range, without losing our share in the world market.

You are urged to refrain from hasty and ill-advised action on the soybean price support program in this session. We are convinced that driving our prices down on the whole crop and running up farm program costs at the Treasury probably will prove to be a very expensive and fruitless effort to send a message to policy makers in other producing nations. I thank you for the opportunity to appear before you today to express the views of our organizations.

Chicago Soybean Prices

In relation to Washington activity concerning growing soybeans on diverted acres and the soybean marketing loan,

On January 24 the March option closed at \$6.32 per bushel. As talk of the House Ag. Sub-Committee meeting scheduled for February 2 to consider planting soybeans on diverted acres and the marketing loan concept progressed, the price dropped to \$5.97 on February 2.

In the afternoon of February 2, sub-committee chairman Glickman announced that they took no action and that the additional plantings on diverted acres, in his opinion was dead. The price then increased to \$6.3350 by February 17. On March 1, the price was \$6.35. It then became known that the sub-committee would meet to consider the marketing loan again on March 11. On March 10 the price had fallen again, down to \$6.03. On March 10, it was announced that the meeting had been called off. The price again began to recover and stood at \$6.1475 on March 14.

The price reactions to the on again, off again discussion of the marketing loan concept is sending the wrong message to the soybean producer that has been considering some increased acreage. He reasons that the marketing loan only applies when soybeans are less than loan and he cannot and will not increase production at less than his cost of production. The loan rate, even at \$5.02, is below that cost.



**NATIONAL
FARMERS
UNION**

TESTIMONY
OF
NATIONAL FARMERS UNION

TO

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES
SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING
AND PRODUCT PROMOTION
UNITED STATES SENATE

REGARDING

SOYBEAN MARKETING LOAN AND RELATED ISSUES

MARCH 18, 1988

The National Farmers Union is an organization whose policy objectives and directives are established by its grassroots farmer membership through delegate voting at its national convention each year. At our last convention, held in Albuquerque, New Mexico, March 6-9, 1988, the delegates gave us a clear direction on the farm program policies they wanted applied to farm commodities, including oilseeds.

At that time, the delegates adopted the following policy statement regarding the direction of farm programs in general:

"We call upon Congress to develop a simplified and more direct program that returns to the goal of assuring producers a reasonable livelihood by providing price and income protection on a family farm level of production. The following principles need to be included in a new farm bill:

1. The legislation should be long-term.
2. Minimum price support levels should be established at 70 percent of parity or at 110 percent of production costs, whichever is greater.
3. Marketing quotas and marketing certificates should be utilized in mandatory market management programs, when adopted through producer referenda.
4. An adequate national emergency reserve, isolated from the market, must be maintained.
5. The Commodity Credit Corporation (CCC) should exercise its authority to negotiate long-term agreements with importing nations.

- 2 -

6. Tiered marketing quotas, set asides, and price supports, together with realistic overall and per-program limitations should be enacted and effectively enforced on all farm program provisions so program benefits are targeted to small- and medium-sized farmers.

7. A limit on the total amount of CCC loans that any farmer could receive in one year should be established."

The delegates also adopted a position on oilseeds which states that "to protect the interests of these commodities (soybeans, cottonseed and sunflower), higher support levels are needed and supply management programs should be established for those commodities."

Based on those directives -- and for other reasons as well -- the National Farmers Union is opposed to the passage of a soybean marketing loan proposal like that advanced during the first session of the 100th Congress and similar proposals which are being discussed at this time. Instead, the National Farmers Union urges Congress to adopt a price support program for soybeans and other oilseeds that is consistent with the Farmers Union's policy which would provide protection to farmers' incomes and farm prices for those commodities.

The soybean marketing loan proposal being discussed at the present time has several basic flaws, we believe. The first is the \$4.53 per bushel loan rate is too low to provide farmers with a fair and adequate return. The second is that if the marketing loan were to go into effect, it would depress farm gate prices even lower during times of oversupply without providing commensurate and adequate farm income protection. And third, there is no guarantee the marketing loan will achieve its intended goal of increasing farm exports significantly, increasing the U.S. share of the world market and drawing down U.S. ending stocks of soybeans.

Proponents of the soybean marketing loan cite those last items as their prime argument in favor of a soybean marketing loan. They maintain it will significantly increase exports, increase market share and draw down stocks. In support of this, they cite the experience we have seen in the rice and cotton marketing loan programs during their short time in existence.

The National Farmers Union believes that the jury is still out regarding the success of the rice and cotton marketing loan programs. The effects have been short-lived and may already have run their course. Also, there were a variety of other factors worldwide which contributed to the increase in exports of those commodities, the drawdown in stocks and subsequent price improvements. Further, there are significant differences in the forces which apply to those two commodities and soybeans that would make a marketing loan program less applicable to oilseeds.

On this last point, we find ourselves in rare agreement with the current Administration when it used that as one of its arguments when Secretary Lyng rejected the idea of implementing a marketing loan program for wheat, feedgrains and soybeans in 1987.

The National Farmers Union also agrees with Secretary Lyng's and the Department of Agriculture's analysis that a soybean marketing loan would do little to increase exports and vastly

- 3 -

inflate the cost of the soybean program. When he rejected a soybean marketing loan in 1987, the Secretary predicted a 25-cent decline in the soybean price below the then \$4.77 loan rate could cost \$13 to \$25 million and that the tab could increase to \$340 to \$645 million, if prices fell 52 cents below the loan rate.

The National Farmers Union also agrees with one other reason the Secretary cited against implementing a soybean marketing loan -- the adverse impact it could have on other oilseeds as well. If a soybean marketing loan were to be authorized by Congress and then implemented at a later date when market conditions are different than present, it would drive down the price of sunflower, cottonseed and other oilseeds to the detriment of those producers. It also could have an impact on corn farmers as well, increasing the production of that crop with potential adverse consequences.

If all of the above reasons were not enough to argue against the enactment of a soybean marketing loan, there is one other. There is no reason to implement a soybean marketing loan at this time. Soybean prices are well above the loan rate -- over \$6 per bushel. There are even some predictions soybean prices could go as high as \$7.50 per bushel sometime this marketing year.

Markets are fragile instruments that run many times on psychology as much as fundamentals. We have seen this time and again in the commodity markets, and some feel we see it today in the stock market, too. If Congress were to approve a soybean marketing loan plan now, it might send a wrong signal to the markets and limit the upside potential that currently exists. It certainly would send a signal that we intend to be a low price producer no matter what the cost to our farmers. And a component of last year's soybean marketing loan proposal which was considered at one point as part of the budget reconciliation process definitely would send a signal it is U.S. policy to not want high prices for farmers either.

The item we refer to was an element in last year's soybean marketing loan proposal which at one point called for the planting of soybeans on feedgrain set-aside acres.

The National Farmers Union believes that to be a disastrous proposal. It would be disastrous for soybean farmers. And it would be disastrous for all farmers in the precedent it would set for the way this country intended to operate farm programs in the future.



America Needs Parity!

American Agriculture Movement, Inc.

100 Maryland Ave., N.E., Suite 500A, Box 69, Washington, D.C. 20002
(202) 544-5750

Remarks of
David Senter
National Director
American Agriculture Movement, Inc.

Friday, March 18, 1988
U.S. Senate Agriculture Committee
Subcommittee on Agriculture Production & Stabilization of Prices

Mr. Chairman and members, I appreciate the opportunity to share with you AAM's views on a possible marketing loan for soybeans.

Because there is no target-price/deficiency-payment program for soybeans, soybean farmers get their all their income either from the market or from the non-recourse loan. The current level of the loan is insufficient for many farmers -- especially in the South -- to recover their production costs; they simply can't make it when soybean prices are below five dollars a bushel. The only hope they have is that program participation, high yields and world demand might drive prices up above the loan rate. And, recently, the price situation has improved somewhat.

Soybean farmers are gamblers. They have to be. On the gamble that prices will rise enough to generate a profit for them, they take the risk that circumstances will deal them a losing hand. They can do this because their potential losses are limited by the non-recourse loan and, just as importantly, the loan generally serves as an effective price floor from which prices can rise to profitable levels.

You can't make money at \$4.53/bushel, but as long as you know prices won't go much lower than that, you can afford to gamble that they'll rise enough above that level to where you can turn a little profit.

The marketing loan would still guarantee to a soybean farmer that he'll get \$4.53/bushel for his beans. But it pulls the floor out from under the market

(continued)

Strength From The Land

price. The price could fall to \$3/bushel. Or lower. The marketing loan would make it a lot less likely that the price would ever rise above the loan level.

Under the current program, you can lose a little money on soybeans or, if prices rise above the loan, you might make a little.

With a marketing loan, in all likelihood, your possibilities would be that you could lose a little . . . or you could lose a little.

We question the wisdom of applying the marketing loan to a commodity in which we are by far the dominant supplier in the world market. We export far more soybeans than all the other exporters combined. Other producers cannot supply the world's needs.

In that situation, we effectively determine the world price floor. Other exporters may undercut us by a little and take the first sales, but sooner or later, soybean customers must come to us to fill their orders.

There is some competitive pressure from other oilseeds and protein products, but they tend to follow soybean prices, too.

So why don't we stick with the non-recourse loan, raise it to a fair level and allow soybean and other oilseed producers both here and abroad to make a little money?

Brazil might even be able to increase its export earnings enough to start servicing its debts; they sure won't be helped if we go with a marketing loan and escalate the global agricultural trade war. For that reason, we think they'd be willing to sit down with us to discuss supply management and even equitable market shares. Certainly they understand that the alternative, a trade war, is hurting all of us. President Alfonsin of Argentina, for example, has made it clear that U.S. farm policies are doing serious damage to his country's ability to generate the foreign exchange they need to service their debts.

We control 70% of the soybean export market -- and half the market even if you include oil and meal. In that situation, the marketing loan doesn't make

(continued)

sense unless your primary concern is (1) to increase export volume with no concern for price and earnings, or (2) to bankrupt foreign producers and drive them out of the soybean business.

Speaking for AAM's members, we think export value is more important than volume. And we don't have anything against farmers in other nations. We think the market is plenty big enough for all of us if we could just get a fair price for what we produce.

In the case of soybeans, the marketing loan isn't a warning shot fired across the bow of other exporters. It's an all-out attack on them. And American farmers and farmers around the world are paying a heavy price for this war.

Before we escalate things any further, let's put out a peace feeler. Let's at least visit a little to see if there might be an opening to work something out with our competitors -- who also happen to be our allies and important trading partners, by the way.

I realize that the current Administration considers anyone a heretic who doesn't bow down before the altar of the free market. They'd rather go toe-to-toe with the world and try to impose a global free market in agriculture.

With all due respect, that's a worthy-sounding goal that'll be achieved about a week after the next blizzard alert in Hell.

Meanwhile, our soybean farmers need a fair price for their products in the marketplace. They need the price floor -- the non-recourse loan rate -- raised, not jerked out from under them.

Now, if -- repeat, if! -- you actually give serious consideration to extending the marketing loan to soybeans, you must raise the loan rate.

Since 1981, the ratios between commodity prices have become unbalanced, resulting in huge shifts in traditional cropping patterns.

The generally-accepted price ratios are these:

- Soybeans to corn: 2.4-to-1
- Wheat to corn: 1.45-to-1
- Cotton to soybeans: 10-to-1

(continued)

Based upon the target price of corn -- in other words, the expected return per bushel of corn -- the accepted soybean-to-corn price ratio would dictate that the return for a bushel of soybeans should be \$7.03/bushel.

Therefore, while we oppose a marketing loan for soybeans, any such program that is implemented should establish the loan at at least \$7.03/bushel.

In our view, any move to enact a marketing loan at current loan levels would benefit the crushers and exporters at the expense of farmers, and we would be forced to oppose it.

#####

INFLUENCE OF SOYBEAN LOAN RATE AND PROGRAM CHANGES ON SOYBEAN PRICES

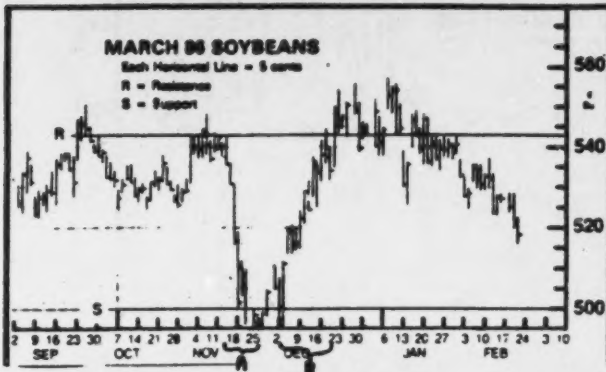


CHART 1: During the debate on the 1985 Farm Bill it was announced that the USDA and the administration would support the ASA "FAIR" proposal to make a per acre cash payment and remove the \$5.02 loan rate support. CBOT futures prices immediately plunged \$.50 or more (A). Upon announcement that the USDA had withdrawn support for the proposal and its ultimate defeat, prices almost immediately returned to their original trading levels (B). After passage of the 1985 Farm Bill giving the Secretary of Agriculture the authority to lower the loan rate to \$4.77, prices started a slow retreat.

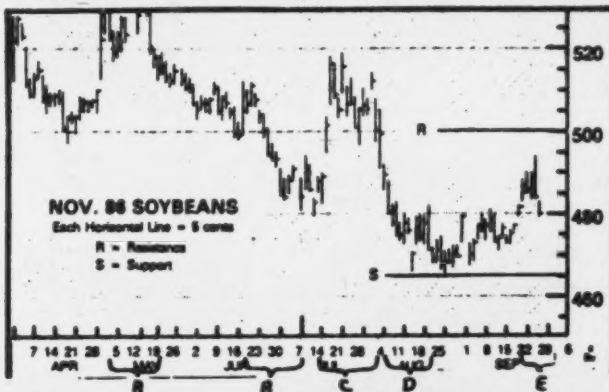


CHART 2: Through the spring of 1986 soybean futures traded near the loan support level with the exception of the period of the Chernobyl disaster (A). Rumors that the Secretary of Agriculture would lower the loan rate to \$4.77 caused prices to fall to that level (B). An announcement by USDA officials that the loan rate might be left at \$5.02 because soybean growers did not qualify to receive deficiency payments immediately sent prices back above \$5.00 (C). Upon actual announcement of a \$4.77 loan rate prices immediately fell to and traded at that level (D) until an extended period of rain during the midwest harvest season threatened the crop (production cut) and caused prices to strengthen (E).

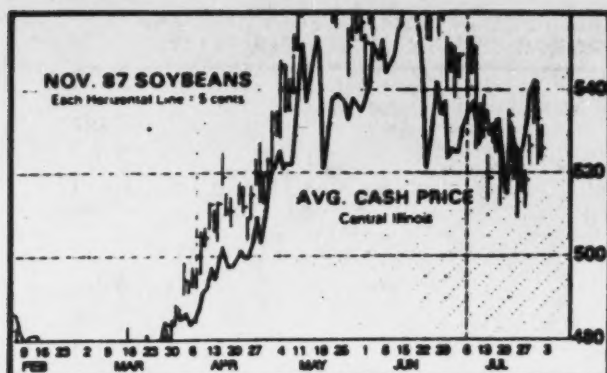


CHART 3: CBOT futures prices traded in a narrow range near the support price until the announcement by USDA that 12 million acres, mostly soybean acreage, was idled by the CRP (acreage reduction program?) The reduced acreage combined with forecasts of possible drought to keep prices firm.

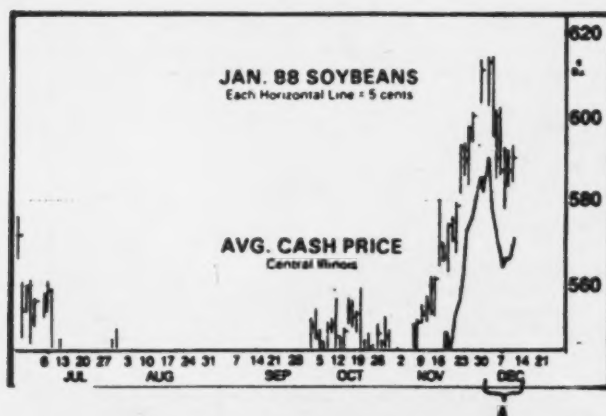


CHART 4: In December 1987 the Senate Ag Committee passed a budget compromise package that would increase the mandatory Feed Grains set-aside from 20% to 25% and allow the planting of soybeans on the 5% increase. Soybean prices immediately fell over \$.30 (A). Upon defeat of the Senate proposal by the House members of the conference committee the price returned to its previous levels.

COMPARISON OF FARM COMMODITY PRICE SUPPORT LEVELS

<u>Commodity</u>	<u>Support Price</u>	<u>Parity March 1987</u>	<u>Support as % of Parity</u>
Wheat	\$4.23	\$6.59	64%
Rice	\$11.13	\$18.50	60%
Corn	\$2.93	\$4.78	61%
Cotton	\$0.759	\$1.23	62%
Soybeans	\$4.77	\$11.70	41%
Soybeans	\$4.54	\$11.70	39%
Soybeans	\$6.50	\$11.70	56%

Senator MELCHER. Thank you.
Mr. Marine.

STATEMENT OF C. LOCKWOOD MARINE, VICE CHAIRMAN, NATIONAL SOYBEAN PROCESSORS ASSOCIATION, FORT WAYNE, IN

Mr. MARINE. Thank you, Senator. I am substituting today for the chairman of the National Soybean Processors, Mr. Jim Lindsay, who unfortunately had an emergency and could not be here. We have prepared written testimony which we would like to have included in the record, and in the interest of time I will make only a few summary comments.

What we are experiencing today is a ratcheting down of the U.S. soybean industry. My company, for example, closed a plant in Ohio last year. We are concerned that this year, 1988, this summer that we will be out of soybeans in the States of Indiana and Ohio, and we will have to close several of our plants. That is one of the impacts of the fact that we have seen no growth in the soybean industry.

Basically, bad Government policy is preventing growth in our U.S. soybean production. We are growing corn and wheat that we do not need. We are encouraging South America to fill the growth in world oilseed demand. Development of this expanded acreage in South America takes 2 to 3 to 4 years. Our price umbrella gives their investors courage to expand because there is little or no risk to them. These foreign producers get a clear signal to cut corn and wheat acres and plant soybeans.

As Professor Womack stated earlier, our U.S. EEP and PIK programs make U.S. corn and wheat prices competitive without cutting producer income. At the same time, the U.S. soybean loan and our stagnant production gives South America a clear floor below which their prices will not fall.

We should not let, as the representative of the USDA suggests, short term price situations and projections interfere with the developing good government policy or correcting what is currently bad government policy.

There are two things we need to do. We need to correct the policy which discourages soybean production capacity. Second, we need to enact a marketing loan or its equivalent to put those foreign producers truly at risk when they come through with the kind of expansion they have had.

If we do those two things, we know the market is expanding. We know that our producers are as efficient as anyone. We have the best production and marketing system in the world. If we correct those two things, this industry again will go back to a growth situation.

Thanks for the opportunity.

[The prepared statement and letter of March 25, 1988, of James W. Lindsay, chairman of the National Soybean Processors Association, CEO of Ag Processing Inc., Omaha, Nebraska, follow:]

**TESTIMONY OF JAMES LINDSAY
CHAIRMAN
OF THE
NATIONAL SOYBEAN PROCESSORS ASSOCIATION
CEO of AG PROCESSING INC
OMAHA, NEBRASKA
BEFORE THE
AGRICULTURAL PRODUCTION AND STABILIZATION
OF
PRICES SUBCOMMITTEE
AND
THE DOMESTIC AND FOREIGN MARKETING AND
PRODUCT PROMOTION SUBCOMMITTEE
OF THE SENATE AGRICULTURE COMMITTEE
CHAIRMEN SENATOR JOHN MELCHER AND
SENATOR DAVID PRYOR
MARCH 18, 1988**

SENATOR MELCHER AND SENATOR PRYOR, I WOULD LIKE TO THANK YOU FOR GIVING ME THIS OPPORTUNITY TO TESTIFY BEFORE YOUR SUBCOMMITTEES REGARDING THE IMPORTANT ISSUES FACING THE U.S. SOYBEAN INDUSTRY. MY NAME IS JAMES LINDSAY, CHAIRMAN OF THE NATIONAL SOYBEAN PROCESSORS ASSOCIATION (NSPA), AND THE CEO AND GENERAL MANAGER OF AG PROCESSING INC. (AGP) HEADQUARTERED IN OMAHA, NEBRASKA. I LOOK AT THE SOYBEAN INDUSTRY FROM A UNIQUE PERSPECTIVE BECAUSE I REPRESENT BOTH FARMERS AND PROCESSORS. IN MY CAPACITY AS THE CEO OF AGP I REPRESENT THE LARGEST FARMER OWNED SOYBEAN PROCESSING COMPANY IN THE WORLD. AGP IS OWNED BY 322 LOCAL COOPERATIVE ASSOCIATIONS REPRESENTING 270,000 FARMERS FROM 10 DIFFERENT STATES INCLUDING: IOWA, WISCONSIN, MINNESOTA, MISSOURI, NEBRASKA, NORTH DAKOTA, SOUTH DAKOTA, ARKANSAS, OKLAHOMA, AND KANSAS. OUR COOPERATIVE IS ALMOST COMPLETELY DEPENDENT UPON SOYBEAN PROCESSING WITH 8 PLANTS HAVING A DAILY CRUSHING CAPACITY OF 460,000 BUSHEL. AS A COOPERATIVE, WE DO NOT HAVE DIVERSITY OR INTERNATIONAL INVESTMENTS SO WE ARE PARTICULARLY SENSITIVE TO POLICIES MADE HERE IN WASHINGTON.

IN MY OTHER CAPACITY AS THE CHAIRMAN OF THE NSPA, I AM REPRESENTING THE LARGEST CUSTOMER OF U.S. SOYBEAN GROWERS. NSPA IS MADE UP OF 13 MEMBERS WHO OWN PLANTS IN 21 STATES AND REPRESENT 85% OF THE DOMESTIC SOYBEAN CRUSH. WE ALSO HAVE ANOTHER 22 ASSOCIATE MEMBERS WHO ARE DIRECTLY IMPACTED BY U.S. SOYBEAN POLICIES. APPROXIMATELY 25% OF THE NSPA MEMBERSHIP ARE COOPERATIVES.

SENATOR MELCHER, SINCE I TESTIFIED BEFORE YOUR SUBCOMMITTEE LAST YEAR THE NSPA'S POSITION ON A MARKETING LOAN HAS NOT CHANGED. WE SUPPORT THE MARKETING LOAN AND ASA'S EFFORTS TO GET ONE. THE DANGEROUS TRENDS WE DESCRIBED AT YOUR HEARING LAST YEAR ARE CONTINUING. LAST YEAR THE SOUTH AMERICANS EXPANDED PRODUCTION BY WELL OVER 10% AND WILL LIKELY EXPAND EVEN MORE THIS YEAR. THE U.S. MUST ACT NOW TO KEEP THE U.S. SOYBEAN INDUSTRY FROM BECOMING A SECOND RATE COMPETITOR IN WORLD MARKETS. WE MUST ENSURE THAT U.S. GOVERNMENT PROGRAMS DO NOT STOP SOYBEANS AND PRODUCTS FROM COMPETING OVERSEAS FOR MARKETS OR DOMESTICALLY FOR ACRES. TODAY OUR COMPETITORS CAN EXPAND WITHOUT FEAR OF COMPETITION FROM THE U.S. THEY CAN ESTIMATE WHAT THE PRICE WILL BE BASED ON OUR SOYBEAN LOAN RATE AND WHAT U.S. PRODUCTION WILL BE BASED ON WHAT ACRES ARE LEFT AFTER U.S. FARMERS HAVE PLANTED ALL THE OTHER MORE PROFITABLE AND LOW RISK PROGRAM CROPS.

DURING TIMES OF OVER-SUPPLY THE SOUTH AMERICAN FARMER, WHO HARVESTS HIS CROP DURING OUR SPRING, KNOWS THE WORST PRICE HE COULD RECEIVE IS OUR LOAN RATE PLUS ABOUT 6 MONTHS OF INTEREST AND STORAGE COSTS. THAT'S BECAUSE THE U.S. GOVERNMENT WILL BUY AND STORE ALL SURPLUS SOYBEANS IF THE MARKET PRICE SHOULD FALL BELOW THAT RATE. AS A RESULT OF THIS POLICY, THE SOUTH AMERICAN FARMERS RECEIVE A PREMIUM OVER WHAT EVEN OUR OWN FARMERS RECEIVE FROM THE U.S. SOYBEAN PROGRAM. IN OTHER WORDS, OUR SOYBEAN PROGRAM, WHICH IS SUPPOSEDLY DESIGNED TO HELP U.S. FARMERS, HELPS OUR SOUTHERN COMPETITORS EVEN MORE.

DURING TIMES OF SHORTAGE THE SOUTH AMERICAN SOYBEAN FARMER KNOWS THAT THE U.S. DOES NOT HAVE THE CAPABILITY TO EXPAND PRODUCTION TO MEET GROWING DEMAND BECAUSE MOST OF OUR ACREAGE IS TIED UP IN OTHER USDA PROGRAMS. AS A MATTER OF FACT, THEY CAN EVEN DEPEND ON RECEIVING A PREMIUM OVER WHAT WOULD NORMALLY BE THE ALREADY DISTORTED RELATIONSHIP BETWEEN THE U.S. FEED GRAINS TARGET PRICE AND THE SOYBEAN MARKET PRICE. TRADITIONALLY WHEN THERE IS A SOYBEAN TO CORN PRICE RATIO ABOVE 2.5:1 WE EXPERIENCE AN INCREASE IN SOYBEAN PRODUCTION. USING THE CORN TARGET PRICE, WHICH IS NOT REFLECTIVE OF EITHER REAL MARKET DEMAND OR PRICE RELATIONSHIPS BUT IS WHAT A FARMER RECEIVES FROM PLANTING CORN, THE SOYBEAN MARKET PRICE WOULD HAVE TO BE AROUND \$7 TO SHOW ANY ECONOMIC JUSTIFICATION FOR A U.S. FARMER TO SWITCH TO SOYBEANS. IN REALITY THE PRICE WOULD HAVE TO BE EVEN HIGHER BECAUSE FARMERS WOULD LOSE SOME OF THEIR CORN BASE ACRES FOREVER BY PLANTING SOYBEANS AND THEREFORE NEED TO COMPENSATED FOR THAT ADDITIONAL RISK. TO BE HONEST I DOUBT IF MANY FARMERS WILL SWITCH TO SOYBEANS THIS YEAR BECAUSE THE PROGRAM CROPS ARE SAFE, SOYBEAN PRICES HAVE BEEN VOLATILE, AND LETS FACE IT, FOREVER IS A LONG TIME TO LOSE YOUR BASE. FOREIGN FARMERS KNOW U.S. FARMERS WILL NOT PULL OUT OF THE FEED GRAINS PROGRAM, EVEN IF IT IS MORE PROFITABLE TO DO SO, BECAUSE OF THE TREMENDOUS RISK INVOLVED. OUR PROGRAM VIRTUALLY GUARANTEES OUR COMPETITORS A PROFIT AND A COMPETITIVE ADVANTAGE.

SO WHAT HAVE BEEN THE RESULTS OF THIS POLICY? IN RECENT YEARS THE SOYBEAN PROCESSING INDUSTRY HAS EXPERIENCED A TREMENDOUS REDUCTION IN ITS SHARE OF AN EVER INCREASING WORLD MARKET. ATTACHED TO MY TESTIMONY YOU WILL FIND A NUMBER OF TABLES WHICH DEMONSTRATE WHAT HAS HAPPENED TO THE U.S. IN WORLD OILSEED PRODUCTION, CRUSH AND EXPORTS.

THE FIRST TABLE SHOWS THE CHANGE IN WORLD OILSEED PRODUCTION BETWEEN 1979-80 AND 1986-87. AS YOU CAN SEE, 3

THE CHANGE HAS BEEN DRAMATIC WITH AN INCREASE OF ALMOST 23.3 MILLION METRIC TONS (MMT). BY LOOKING AT TABLE 6 IT IS OBVIOUS THAT THE U.S. SOYBEAN FARMER HAS BEEN LEFT OUT OF THIS GROWTH. IN FACT, U.S. SOYBEAN PRODUCTION HAS DROPPED 8.9 MMT DURING THIS SAME PERIOD.

DURING A TIME WHEN THE U.S. TRADE DEFICIT IS AT RECORD HIGHS WE FIND THAT U.S. SOYBEANS AND PRODUCTS, ONCE THE U.S.'S HIGHEST VALUE EXPORT, ARE LOSING MARKETS AT AN ACCELERATING RATE. TABLE 3 SHOWS WORLD OILSEED NET EXPORTS HAVE INCREASED 82,000 MT BETWEEN 1979-80 AND 1986-87 BUT U.S. SOYBEAN EXPORTS HAVE DROPPED 2.9 MMT (TABLE 6). TABLES 4 AND 8 GRAPHICALLY DISPLAY THE U.S.'S SITUATION AS WORLD EDIBLE OILS AND FATS EXPORTS INCREASED ALMOST 4.7 MMT WHILE U.S. SOYBEAN OIL EXPORTS DROPPED 700,000 MT. TABLE 5 TELLS A SIMILAR STORY AS WORLD OILMEALS NET EXPORTS INCREASED ALMOST 9.6 MMT AND AS SEEN ON TABLE 7, U.S. SOYBEAN MEAL EXPORTS DROPPED 200,000 MT.

TABLES 6, 7, AND 8 DESCRIBE IN EVEN MORE DETAIL THE DRAMATIC DROP IN THE U.S.'S PARTICIPATION IN PRODUCTION, CRUSHING, AND EXPORTING OF SOYBEANS AND PRODUCTS. AS YOU CAN SEE, THE U.S.'S SHARE OF THE WORLD MARKET HAS DROPPED IN EVERY CATEGORY. U.S. SHARE OF WORLD OILSEED PRODUCTION HAS DROPPED BY 6% WHILE WORLD OILSEED PRODUCTION INCREASED 16%. U.S. SHARE OF THE WORLD OILSEED CRUSH DROPPED 2% WHILE WORLD OILSEED CRUSH INCREASED 25%. U.S. SHARE OF WORLD OILMEALS PRODUCTION AND EXPORTS DROPPED 5% AND 12% RESPECTIVELY WHEN THE WORLD EXPANDED 26% AND 46%. AN ALSO IMPRESSIVE LOSS IS THE PRODUCTION AND EXPORTING OF WORLD EDIBLE OILS AND FATS WHICH INCREASED 27% AND 42% RESPECTIVELY WHILE THE U.S. SHARE DROPPED 1% AND 8%. AS TABLE 9 SHOWS, ALL OF THIS U.S. DROP HAS BEEN PICKED UP BY ARGENTINA AND BRAZIL BY TAKING ADVANTAGE OF THIS MAJOR FLAW IN U.S. FARM POLICY AND THROUGH THE USE OF THEIR OWN UNFAIR TRADE PRACTICES. FURTHER EXAMPLES OF BRAZILIAN AND ARGENTINE GROWTH CAN BE FOUND IN CHARTS 14 AND 15.

TABLE 10 DISPLAYS IN GRAPHIC DETAIL THE DECLINE OF U.S. SOYBEAN OIL EXPORTS. IN 1986-87 MORE THAN 96% OF U.S. SOYBEAN OIL EXPORTS WERE ASSISTED IN SOME WAY BY THE USDA WHEN JUST 7 YEARS AGO ONLY 27% WERE ASSISTED. IN OTHER WORDS, OUR DOMESTIC PROGRAMS AND FOREIGN SUBSIDIES HAVE MADE US NONPLAYERS IN THE WORLD MARKET. REMEMBER, FROM OUR COMPETITORS POINT OF VIEW, TO SUBSIDIZE OILSEEDS PRODUCTION AND PRODUCTS IS A GOOD LONG-TERM INVESTMENT BECAUSE THEY HAVE FREE ACCESS TO A GROWING MARKET AND THE U.S.'S PROGRAM IS STAGNANT, INFLEXIBLE, AND NONCOMPETITIVE. BY ANY MEASURE WE HAVE MADE OUR COMPETITOR'S STRATEGIES SUCCESSFUL. FOR

EXAMPLE, THE U.S. WAS ONCE THE NUMBER ONE EXPORTER OF SOYBEAN MEAL AND SOYBEAN OIL, NOW WE ARE NUMBER TWO AND THREE RESPECTIVELY.

THE QUESTION THAT IS OFTEN RAISED WHEN DISCUSSING AN INDUSTRY THAT IS EXPERIENCING A DRAMATIC REDUCTION SUCH AS OURS IS: CAN THE U.S. SOYBEAN INDUSTRY COMPETE? YES! WE ARE THE LOWEST COST PRODUCERS, TRANSPORTERS, MARKETERS, AND PROCESSORS ANYWHERE IN THE WORLD. WE LEAD IN COMPARATIVE ADVANTAGE.

THE U.S. HAS THE LOWEST VARIABLE COSTS OF ANYWHERE IN THE WORLD. THE PER UNIT COSTS FOR US TO EXPAND PRODUCTION AND PROCESSING IS VERY LOW BECAUSE THE INVESTMENT HAS ALREADY BEEN MADE AND THE INFRASTRUCTURE EXISTS (I.E. TRANSPORTATION FACILITIES, PROCESSING PLANTS, MARKETING CHANNELS, FARM LAND, ETC.). WE COULD EASILY EXPAND TO MEET WORLD DEMAND IF OUR PROGRAMS DID NOT RESTRICT US. FOR MOST OTHER COUNTRIES, HOWEVER, THE JOB IS NOT SO EASY. IN ORDER FOR THEM TO EXPAND TO MEET DEMAND THEY NEED TO CLEAR NEW AREAS FOR PRODUCTION, BUILD TRANSPORTATION LINES, AND INVEST IN INCREASING PROCESSING CAPACITY. THE COST TO DO ALL THIS IS SUBSTANTIAL.

BUT WHERE WILL WE BE IN A FEW YEARS IF THE U.S. CONTINUES WITH OUR PRESENT POLICIES? THE PRESENT SOYBEAN PROGRAM ALLOWS OUR SOUTH AMERICAN COMPETITORS TO SELL THEIR PRODUCT ON THE WORLD MARKET FOR A GUARANTEED PROFIT WITHOUT FEAR OF SERIOUS U.S. COMPETITION, AND THEN TO USE THOSE PROFITS TO DEVELOP THEIR PRODUCTION, TRANSPORTATION, MARKETING, AND PROCESSING INFRASTRUCTURE. THEY ARE MAKING THE INVESTMENT WHICH SHOULD TELL US SOMETHING ABOUT THE MARKET POTENTIAL BUT EVEN MORE IMPORTANTLY IT SHOULD SEND US A SIGNAL TO ACT QUICKLY. ONCE THEY HAVE MADE THE INVESTMENT, THEIR VARIABLE COSTS WILL BE EQUAL TO OR LOWER THAN OURS, AND THEIR INCENTIVE TO STAY IN BUSINESS WILL ONLY INCREASE.

IN ORDER TO BRING MORE SOYBEAN ACREAGE INTO PRODUCTION IN THE U.S., WE ARE NOT NECESSARILY COMPETING AGAINST OTHER COUNTRIES OR STRUGGLING TRYING TO JUST MAKE A PROFIT OVER EXPENSES. WE ARE COMPETING AGAINST OTHER U.S. FARM PROGRAMS. U.S. PROCESSORS AND FARMERS HAVE TO BID AGAINST WHAT THE U.S. GOVERNMENT IS PAYING FARMERS TO GROW OTHER COMMODITIES. THIS IS NOT TO SAY THAT PRODUCERS OF OTHER COMMODITIES SHOULD BE PAID LESS BUT THEY SHOULD BE GIVEN THE FLEXIBILITY TO PRODUCE TO MEET DEMAND AND NOT BE PENALIZED FOR RESPONDING TO THE MARKET. REMEMBER, THIS IS ALL AT A TIME WHEN WORLD PROTEIN MEAL USAGE HAS GROWN 3.4% ANNUALLY AND WORLD⁵

VEGETABLE OIL DEMAND HAS GROWN 4% ANNUALLY WHICH IS NEARLY TWICE THE RATE OF GROWTH IN WORLD GRAIN USAGE.

THE BLAME FOR THE CURRENT STATE OF THE U.S. SOYBEAN INDUSTRY CANNOT BE PLACED SOLELY ON U.S. GOVERNMENT PROGRAMS. THE USE OF SUBSIDIES BY FOREIGN GOVERNMENTS IS ALSO A VERY IMPORTANT FACTOR IN OUR DECLINE. ATTACHED TO MY TESTIMONY YOU WILL FIND OUTLINED BRIEFLY A NUMBER OF TRADE PRACTICES USED BY BRAZIL, MALAYSIA, ARGENTINA, SPAIN, PORTUGAL, AND CANADA FROM TESTIMONY GIVEN BY THE NSPA BEFORE THE INTERNATIONAL TRADE COMMISSION ON APRIL 28TH, 1987. IN ADDITION, THERE IS A BRIEF DESCRIPTION OF THE ACCELERATING THREAT OF THE EUROPEAN COMMUNITY'S POLICIES AND THE IMPACT OF THE LDC DEBT SITUATION. AS I SAID EARLIER, OILSEEDS ARE A GOOD INVESTMENT IF YOU ARE GOING TO SUBSIDIZE IN AGRICULTURE, AND OUR COMPETITORS REALIZE IT. THAT IS WHY IT IS IMPORTANT THAT WE DO NOT JUST PULL THE RUG OUT FROM UNDER THE FARMER AND EXPECT HIM TO COMPETE AGAINST THE TREASURIES OF OTHER COUNTRIES.

I'M SURE THAT SOME OF THE MEMBERS OF THIS SUBCOMMITTEE ARE WONDERING, "WHY, WHEN THINGS LOOK PRETTY GOOD TODAY, ARE THESE FARMERS AND PROCESSORS COMPLAINING?". THAT IS A GOOD QUESTION TO ASK, AND THE ANSWER IS SIMPLE. AGP AND ANY OTHER COMPANY IN THIS BUSINESS IS IN IT FOR THE LONG HAUL. ANY OF US WOULD TRADE A FEW MONTHS OF SHORT-TERM PROFITS FOR LONG-TERM STEADY GROWTH. THE FACT IS THAT MARKET FUNDAMENTALS HAVE NOT CHANGED PRIOR TO THIS RECENT RUN UP IN PRICES. IN THE PAST THREE YEARS, THE INDUSTRY CLOSED 10 PLANTS PERMANENTLY AND 4 COOPERATIVES AND 2 MAJOR CORPORATIONS LEFT THE BUSINESS. THE REASON WE ARE EXPERIENCING GOOD PRICES TODAY IS BECAUSE A NUMBER OF FACTORS ALL FELL TOGETHER IN RECENT WEEKS. THERE WAS A DROUGHT IN INDIA WHICH BROUGHT MORE DEMAND FOR SOYBEANS AND SOYBEAN OIL. THE USSR SUDDENLY STARTED BUYING SOYBEANS AND SOYBEAN MEAL. SOUTH AMERICA HAD SOME PROBLEMS GETTING THEIR COMMODITIES TO THE MARKET LAST YEAR. THE ADMINISTRATION APPROVED SOME MUCH NEEDED VEGETABLE OIL EEP'S. BUT THE FACT IS THAT BETTING ON THESE INCIDENTS YEAR AFTER YEAR IS LIKE PLAYING A CRAP GAME WHERE YOU ARE GOING TO LOSE A LOT MORE THAN YOU ARE GOING TO WIN. WE NEED A LONG-TERM, STEADY, COMPETITIVE PROGRAM THAT ALLOWS US TO EXPAND ACRES TO MEET DEMAND AND BE PRICE COMPETITIVE AT ALL TIMES.

WHAT WE ARE EXPERIENCING IS A RATCHETING DOWN OF THE U.S. SOYBEAN INDUSTRY. THE U.S. SHUTS DOWN PLANTS AND PULLS ACRES OUT OF PRODUCTION, SO THERE IS VERY LITTLE FLEXIBILITY TO MEET DEMAND IF THERE IS BAD WEATHER OR SOME OTHER PROBLEM. AFTER A PROBLEM SUCH AS A DROUGHT ARISES, PRICES RUN UP, THE U.S. SOYBEAN INDUSTRY IS

RESTRICTED FROM GROWING TO MEET DEMAND SO OTHER COUNTRIES EXPAND AND EVENTUALLY THE PRICE DROPS. OTHER COUNTRIES FOLLOW THE PRICE DOWN TO JUST BELOW OUR LOAN LEVEL, U.S. FARMERS AND PROCESSORS AGAIN CAN'T COMPETE, CLOSE PLANTS, AND THE CYCLE STARTS OVER AGAIN.

MR. CHAIRMAN, LET ME ASSURE YOU THAT THE U.S. SOYBEAN INDUSTRY HAS NOT BEEN LYING ON ITS BACK WAITING FOR THE U.S. GOVERNMENT TO SAVE US. NSPA AND THE ASA HAVE BEEN FIGHTING HARD TO KEEP OUR MARKETS AND FIGHT THE UNFAIR TRADE PRACTICES USED BY OUR COMPETITORS. LAST YEAR JOINT NSPA/ASA TEAMS VISITED THE CAPITALS OF WESTERN EUROPE TO FIGHT THE PROPOSED EC FATS AND OILS TAX. THE NSPA HAS LITERALLY SPENT OVER A MILLION DOLLARS ON A SECTION 301 PETITION TO FIGHT ARGENTINA'S SYSTEM OF SUBSIDIZING EXPORTS OF PROCESSED SOYBEAN PRODUCTS. ASA HAS FILED A 301 PETITION, WHICH JUST RECENTLY WAS ACCEPTED BY THE U.S. TRADE REPRESENTATIVE, TO FIGHT THE EC'S POLICIES OF SUBSIDIZING OILSEEDS. WE HAVE ALSO MADE IT A TOP PRIORITY TO EDUCATE ADMINISTRATION, CONGRESSIONAL, AND AGRICULTURAL LEADERS ABOUT THE PROBLEMS FACING OUR INDUSTRY. IN ADDITION, A LOT OF TIME, MONEY, AND EFFORT HAS BEEN SPENT ON MARKET DEVELOPMENT AND TRIPS OVERSEAS TO SHOW POTENTIAL CUSTOMERS THE REAL VALUE OUR PRODUCTS HAVE TO OFFER.

HOWEVER, THE SOYBEAN INDUSTRY CAN NOT SOLVE THE SERIOUS PROBLEMS WE FACE BY OURSELVES. U.S. GOVERNMENT POLICIES AND PROGRAMS HAVE HAD A DEVASTATING EFFECT ON OUR INDUSTRY, SO IT IS GOING TO TAKE HELP FROM CONGRESS AND THE ADMINISTRATION TO GET US FIRMLY BACK ON OUR FEET. TOO OFTEN, FOR EXAMPLE, OUR MARKET DEVELOPMENT EFFORTS END UP BENEFITING OUR COMPETITORS WHO TAKE ADVANTAGE OF THE NEW MARKETS BY UNDER CUTTING US ON PRICE. IN ADDITION, OUR COMPETITORS CAN TAKE OVER MARKETS BY HAVING SOYBEANS AND PRODUCTS AVAILABLE WHEN THE U.S. IS OUT OF STOCKS, U.S. STOCKS ARE LOCKED UP IN THE CCC INVENTORIES, OR TRADE IS RESTRICTED DUE TO U.S. EMBARGOS.

WHAT'S THE SOLUTION? WE NEED TO TAKE AWAY THE ALL THE GUARANTEES THAT WE OFFER OUR COMPETITORS. WE NEED TO MODIFY U.S. FARM PROGRAMS THAT ARTIFICIALLY DISCOURAGE SOYBEAN PRODUCTION BY PROHIBITING FARMERS FROM RESPONDING TO MARKET SIGNALS, AND WE MUST MAKE A COMMITMENT TO BE PRICE-COMPETITIVE IN DOMESTIC AND EXPORT MARKETS.

FIRST, WE NEED TO SEND A SIGNAL AROUND THE WORLD THAT OUR FARMERS WILL PLANT COMMODITIES THAT ARE IN DEMAND AND WILL NOT BE DISCOURAGED BY U.S. GOVERNMENT PROGRAMS FROM DOING SO. UNTIL WE SEND THAT SIGNAL OUR 7

COMPETITORS WILL KNOW EXACTLY WHAT OUR LIMITATIONS ARE AND THAT SOYBEANS WILL NOT BE PLANTED NO MATTER HOW HIGH THE PRICE OR ATTRACTIVE THE MARKET. FRANKLY, I FIND IT VERY FRUSTRATING TO READ STORIES ABOUT HOW MANY ACRES WILL BE SITTING IDLE THIS YEAR UNDER 0/92, 50/92, SET-ASIDES, AND OTHER PROGRAMS, WHEN I KNOW U.S. SOYBEAN PRODUCTION IS SHRINKING BECAUSE OF THESE PROGRAMS, AND FOREIGN PRODUCERS ARE EXPANDING TO MEET THE GROWING WORLD DEMAND FOR OILSEEDS.

FARMERS NEED TO BE ABLE TO PLANT TO MEET DEMAND. IN 1988 AND BEYOND WE SEE AN INCREASING DEMAND FOR SOYBEANS AND PRODUCTS. UNDER PRESENT POLICIES THE U.S. WILL NOT BE AN ACTIVE PARTICIPANT IN THIS GROWING MARKET. THIS DOES NOT MEAN WE ARE ADVOCATING CHANGES THAT WOULD FORCE FARMERS TO PLANT SOYBEANS. RATHER, WE BELIEVE FARMERS SHOULD HAVE THE FLEXIBILITY TO PLANT SOYBEANS ON SOME PART OF THEIR PROGRAM BASE WITHOUT PENALTY. THIS MAY TAKE A COMBINATION OF PROGRAMS AND CREATIVE THOUGHT ON THE PART OF THE SOYBEAN INDUSTRY, CONGRESS AND THE ADMINISTRATION.

SEVERAL IDEAS HAVE BEEN CIRCULATED ON HOW TO DEAL WITH THIS PROBLEM. ONE WAY TO GIVE FARMERS A PARTIAL CHOICE WOULD BE TO PROTECT THEIR BASE WHILE ALLOWING THEM TO SHIFT SOME OF THEIR ACRES TO SOYBEANS. ANOTHER PROPOSAL WOULD REDUCE THE REQUIRED SET-ASIDE ACRES FOR THOSE FARMERS WHO DECIDE TO PLANT SOYBEANS ON BASE ACRES, SIMILAR TO THE PRE-1985 FARM BILL ENVIRONMENT. AND I'M SURE THERE ARE MANY MORE IDEAS AND PROPOSALS THAT COULD HELP US TO SOLVE THIS PROBLEM.

RESTRICTIONS COULD EASILY BE PUT IN AS TO HOW MANY TOTAL ACRES COULD SHIFT TO SOYBEANS IN ORDER TO PREVENT TOO MANY ACRES FROM SHIFTING TOO QUICKLY. REMEMBER, UNDER ANY PROPOSAL THAT I'VE HEARD DISCUSSED WE ARE NOT TALKING ABOUT EXPANDING ACRES ANY FURTHER THAN WHERE THEY WERE LAST YEAR OR THE YEAR BEFORE. WE BELIEVE AN APPROPRIATELY DESIGNED PROGRAM MIGHT ENCOURAGE TWO TO FIVE MILLION ACRES. IT'S OUR VIEW THAT THE MARKETING NEEDS BETWEEN NOW AND THE MIDDLE OF 1989 COULD EASILY ABSORB AN ADDITIONAL 120 TO 150 MILLION BUSHEL OF SOYBEANS AT A PRICE LEVEL WELL ABOVE THE LOAN RATE.

IT IS MY UNDERSTANDING THAT ANOTHER SIDE BENEFIT OF ALLOWING FOR ADDITIONAL SOYBEAN PLANTINGS IS THAT IT COULD SAVE THE U.S. GOVERNMENT SOME MONEY. AT A TIME WHEN BUDGET PRESSURES ARE BEING FELT IN ALL AREAS OF GOVERNMENT THIS BENEFIT SHOULD NOT BE OVERLOOKED. WE MAY FIND THAT GIVING THE U.S. FARMERS SOME FLEXIBILITY COULD BE THE LEAST PAINFUL WAY OF MEETING OUR

AGRICULTURAL BUDGET OBLIGATIONS WHILE AT THE SAME TIME PURSUING GOOD POLICY.

SECOND, WE NEED TO TAKE AWAY THE PRICE FLOOR WE OFFER OUR COMPETITORS. THEY NEED TO KNOW THAT THEY ARE GOING TO HAVE TO PAY DEARLY FOR SUBSIDIZING THEIR SOYBEAN PRODUCERS, PROCESSORS, AND EXPORTERS. THE SIGNAL NEEDS TO BE SENT NOW, BEFORE THEY HARVEST THIS YEAR AND BEFORE THEY PLAN NEXT YEAR'S CROPS, TO SHOW THAT WE ARE SERIOUS ABOUT COMPETING AND WILL NOT LET THEM GET AWAY WITH UNDER CUTTING OUR LOAN RATE BY A FEW CENTS. BY FORCING OTHER COUNTRIES TO MAKE DECISIONS BASED ON MARKET CONDITIONS AND NOT U.S. COMMODITY PROGRAMS WE WILL BE SENDING THE SIGNAL TO THE WORLD THAT WE ARE NOT GOING TO SUBSIDIZE THEIR EXPANSION AND THE BUILDING OF THEIR INFRASTRUCTURE SO THEY CAN COMPETE MORE EFFECTIVELY IN THE FUTURE. SOME CONCERNS MAY EXIST THAT A MARKETING LOAN COULD SEND MARKET PRICES DOWN. I DON'T BELIEVE THAT WILL HAPPEN BECAUSE THE MARKET IS TOO TIGHT RIGHT NOW. IN FACT, ONE SURE WAY OF GUARANTEEING THE SOUTH AMERICANS WILL INCREASE THEIR SOYBEAN PLANTINGS BY ANOTHER 10 PERCENT OR MORE NEXT YEAR, AS THEY DID THIS YEAR, IS TO NOT CHANGE THE STRUCTURE OF OUR PROGRAM. WE COMPETE IN A WORLD MARKET AND NEWS OF ADDITIONAL SOYBEAN PLANTINGS IN SOUTH AMERICA WILL UNDOUBTEDLY HAVE A NEGATIVE INFLUENCE ON PRICES HERE NEXT FALL.

DROPPING THE LOAN RATE WITHOUT ALLOWING FOR ADDITIONAL PLANTINGS STILL SQUEEZES SUPPLY AND ALLOWS OUR COMPETITORS TO GROW TO MEET DEMAND. AND INCREASING ACRES WITHOUT ALLOWING FOR LOWER PRICES THROUGH A MARKETING LOAN STILL GUARANTEES A PROFITABLE PRICE TO OUR COMPETITORS. OUR COMPETITORS KNOW THIS AND ITS VERY IMPORTANT WE WAKE UP AND REALIZE IT.

THIRD, WE NEED TO FIGHT THE UNFAIR TRADE PRACTICES USED BY OTHER COUNTRIES. AGAIN, I WILL NOT GO INTO A GREAT DEAL OF DETAIL EXCEPT TO SAY THAT WE NEED TO CONTINUE TO USE EEP'S, SECTION 301, AND NEGOTIATIONS TO LOWER TRADE BARRIERS AND ELIMINATE UNFAIR TRADE PRACTICES AROUND THE WORLD. THAT DOESN'T MEAN WE SHOULD LET OUR MARKETS DETERIORATE WHILE WE SIT AT THE NEGOTIATING TABLE. IT MEANS WE SHOULD SHOW THEM WE ARE SERIOUS ABOUT COMPETING BEFORE THEY COME TO THE TABLE, WHILE WE'RE NEGOTIATING, RIGHT UP UNTIL WE REACH AN AGREEMENT.

FINALLY, PL 480 PROGRAMS, GSM, AND SECTION 416 PROGRAMS NEED TO BE USED TO THEIR MAXIMUM EXTENT TO EXPORT SOYBEAN OIL AND MEAL TO COUNTRIES THAT NEED THESE IMPORTANT PRODUCTS. SOME CREATIVITY MAY BE NEEDED IN THESE PROGRAMS TO GIVE POORER COUNTRIES THE

OPPORTUNITY TO IMPORT THE SOYBEAN PRODUCTS THEY REALLY
NEED IN THEIR DIETS.

THANK YOU AGAIN FOR THE OPPORTUNITY TO TESTIFY BEFORE
YOU TODAY. I HOPE MY TESTIMONY AND THE ATTACHED CHARTS
ARE OF SOME ASSISTANCE TO THE COMMITTEE MEMBERS.

JAMES LINDSAY
CHAIRMAN
NATIONAL SOYBEAN PROCESSORS ASSOCIATION
MARCH 18, 1988

T026

TABLE 1

WORLD OILSEED PRODUCTION (000 MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
Rapeseed	10,074	19,783	9709
Cottonseed	25,337	27,537	2200
Sunflowerseed	15,476	18,685	3209
Soybeans	93,771	98,254	4483
Groundnuts	11,431	13,875	2444
Palm Kernels	1,459	2,334	875
Copra	4,680	5,007	327
Linseed	<u>2,920</u>	<u>2,954</u>	<u>34</u>
TOTAL	165,148	188,429	23,281

SOURCE: OIL WORLD

January 20, 1988

TABLE 2

WORLD OILSEED CRUSH (000 MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
Rapeseed	9,027	18,917	9,890
Soybeans	75,851	85,951	13,100
Sunflowerseed	12,603	17,413	4,810
Cottonseed	19,640	20,483	843
Palm Kernels	1,409	2,242	833
Groundnuts	6,573	8,603	2,030
Copra	4,330	4,896	566
Linseed	<u>2,072</u>	<u>2,213</u>	<u>141</u>
TOTAL	128,505	160,718	32,213

SOURCE: OIL WORLD

January 20, 1988

TABLE 3

WORLD OILSEED NET EXPORTS (000 MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
Rapeseed	1,681	2,703	1,022
Cottonseed	276	274	-2
Sunflowerseed	2,209	697	-1,512
Soybeans	27,746	27,972	226
Groundnuts	749	868	119
Palm Kernels	215	220	5
Copra	473	382	-91
Linseed	<u>494</u>	<u>809</u>	<u>315</u>
TOTAL	33,843	33,925	82

SOURCE: OIL WORLD

January 20, 1988

TABLE 4

WORLD EDIBLE OILS AND FATS NET EXPORTS (000 MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
Palm Oil	2,762	5,236	2,474
Sunflower Oil	764	1,415	651
Coconut Oil	1,065	1,400	335
Rapeseed Oil	471	1,296	825
Palm Kernel	346	639	293
Olive Oil	289	174	-115
Fish Oil	655	751	96
Lard	301	233	-68
Cottonseed Oil	404	267	-137
Butter	717	737	20
Groundnut Oil	407	298	-109
Soybean Oil	<u>2,671</u>	<u>3,076</u>	<u>405</u>
TOTAL	10,852	15,522	4,670

SOURCE: OIL WORLD

January 20, 1988

TABLE 5

WORLD OILMEALS NET EXPORTS (000 MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
Soybean Meal	13,447	20,754	7,307
Rapeseed Meal	369	1,574	1,205
Sunflower Meal	739	1,188	-449
Fish Meal	1,853	2,782	929
Palm Kernel Meal	466	977	511
Copra Meal	973	1,198	225
Linseed Meal	684	480	-204
Cottonseed Meal	841	670	-171
Groundnut Meal	<u>1,185</u>	<u>503</u>	<u>-682</u>
TOTAL	20,557	30,126	9,569

SOURCE: OIL WORLD

January 20, 1988

TABLE 6

U.S. SOYBEANS: CHANGES IN WORLD MARKET SHARE
(MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>	
			<u>VOL.</u>	<u>PCT.</u>
<u>Production:</u>				
World Soybeans	93.8	98.3	4.5	5%
U.S. Soybeans	61.7	52.8	-8.9	-14%
U.S. Share	66%	54%		-12%
World Oilseeds	165.1	191.7	26.6	16%
U.S. Share	37%	31%		-6%
<u>Crush:</u>				
World Soybeans	72.9	86.0	13.1	18%
U.S. Soybeans	30.7	32.3	1.6	5%
U.S. Share	42%	38%		-4%
World Oilseeds	128.5	160.7	32.2	25%
U.S. Share	24%	22%		-2%
<u>Net Exports:</u>				
World Soybeans	27.7	28.0	.3	1%
U.S. Soybeans	23.8	20.9	-2.9	-12%
U.S. Share	85%	75%		-10%
World Oilseeds	33.8	33.9	.1	0%
U.S. Share	70%	64%		-6%

SOURCE: OIL WORLD

January 20, 1988

TABLE 7

U.S. SOYBEAN MEAL: CHANGES IN WORLD MARKET SHARE
(MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>	
			<u>VOL.</u>	<u>PCT.</u>
<u>Production:</u>				
World Soybean Meal	57.4	67.5	10.1	18%
U.S. Soybean Meal	24.6	25.3	.7	3%
U.S. Share	43%	37%		-6%
World Oilmeals	91.2	114.7	23.5	26%
U.S. Share	27%	22%		-5%
<u>Net Exports:</u>				
World Soybean Meal	13.4	20.8	7.4	55%
U.S. Soybean Meal	7.1	6.9	-.2	-3%
U.S. Share	53%	23%		-20%
World Oilmeals	20.6	30.1	9.5	46%
U.S. Share	35%	23%		-12%

SOURCE: OIL WORLD

January 20, 1988

TABLE 8

U.S. SOYBEAN OIL: CHANGES IN WORLD MARKET SHARE
(MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>	
			<u>VOL</u>	<u>PCT.</u>
<u>Production:</u>				
World Soybean Oil	13.0	15.3	2.3	18%
U.S. Soybean Oil	5.5	5.8	0.3	5%
U.S. Share	42%	38%		-4%
World Edible Oils & Fats	48.3	62.5	14.2	27%
U.S. Share	11%	10%		-1%
<u>Net Exports:</u>				
World Soybean Oil	2.7	3.1	.4	15%
U.S. Soybean Oil	1.2	0.5	-0.7	-58%
U.S. Share	46%	16%		-30%
World Edible Oils & Fats	10.9	15.5	4.6	42%
U.S. Share	11%	3%		-8%

SOURCE: OIL WORLD

January 20, 1988

TABLE 9

WORLD SOYBEAN OIL NET EXPORTS (000 MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
Argentina	111	767	656
Brazil	399	699	300
United States	1,220	539	-681
EC-12	844	950	106
Other	<u>97</u>	<u>121</u>	<u>24</u>
TOTAL	2,671	3,076	405

SOURCE: OIL WORLD

January 20, 1988

TABLE 10

U.S. SOYBEAN OIL EXPORTS BY CATEGORY (000 MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
PL 480	234	436	202
GSM Credit	97	55	-42
EEP	<u>==</u>	<u>25</u>	<u>25</u>
Total USDA Assisted	331	516	185
Unassisted	<u>889</u>	<u>22</u>	<u>-867</u>
TOTAL	1,220	538	-682

January 20, 1988

TABLE 11

EC-12: SIGNIFICANT MARKET SHARE GAINS (MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
<u>Production:</u>			
Sunflowerseed	0.7	3.4	2.7
Rapeseed	<u>1.2</u>	<u>3.8</u>	<u>2.6</u>
TOTAL	1.9	7.2	5.3
Sunflower Meal	1.3	1.8	0.5
Rapeseed Meal	<u>1.0</u>	<u>2.4</u>	<u>1.4</u>
TOTAL	2.3	4.2	1.9
Sunflower Oil	0.9	1.5	0.6
Rapeseed Oil	<u>0.7</u>	<u>1.7</u>	<u>1.0</u>
TOTAL	1.6	3.2	1.6
<u>Crush:</u>			
Sunflowerseed	2.2	3.3	1.1
Rapeseed	<u>1.8</u>	<u>4.4</u>	<u>2.6</u>
TOTAL	4.0	7.7	3.7
<u>Net Exports:</u>			
Rapeseed Oil	0.2	0.7	0.5
Soybean Oil	<u>0.8</u>	<u>1.0</u>	<u>0.2</u>
TOTAL	1.0	1.7	0.7

January 20, 1988

TABLE 12

EC-12 OILSEED* PRODUCTION, IMPORTS AND CRUSH
(000 MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
<u>Production:</u>			
Soybeans	38	925	6208
Sunflowerseed	604	3,368	2764
Rapeseed	<u>1,212</u>	<u>3,769</u>	<u>2,557</u>
TOTAL	1,854	8,062	6208
<u>Crush:</u>			
Soybeans	15,277	13,875	-1,402
Sunflowerseed	2,213	3,275	1,062
Rapeseed	<u>1,751</u>	<u>4,353</u>	<u>2,602</u>
TOTAL	19,241	21,503	2,262
<u>Imports:</u>			
Sunflowerseed	1,573	182	-1,391
Rapeseed	470	410	-60
Soybean	<u>16,127</u>	<u>14,122</u>	<u>-2,005</u>
TOTAL	18,170	14,714	-3,456

* Only rapeseed, sunflowerseed and soybeans.

January 20, 1988

TABLE 13

**EAST AND WEST MALAYSIA: SIGNIFICANT MARKET SHARE
GAINS (MIL MT)**

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
<u>Production:</u>			
Palm Kernels	0.6	1.4	0.8
Palm Kernel Oil	0.2	0.6	0.4
Palm Oil	<u>2.6</u>	<u>4.6</u>	<u>2.0</u>
TOTAL	2.8	5.2	2.4
<u>Crush:</u>			
Palm Kernels	0.5	1.5	1.0
<u>Net Exports:</u>			
Palm Kernel Oil	0.2	0.6	0.4
Palm Oil	<u>2.2</u>	<u>4.6</u>	<u>2.4</u>
TOTAL	2.4	5.2	2.8

January 20, 1988

TABLE 14

ARGENTINA: SIGNIFICANT MARKET SHARE GAINS (MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
<u>Production:</u>			
Sunflowerseed	1.7	2.2	0.5
Soybeans	<u>3.6</u>	<u>7.0</u>	<u>3.4</u>
TOTAL	5.3	9.2	3.9
Sunflower Meal	0.8	1.1	0.3
Soybean Meal	<u>0.6</u>	<u>3.9</u>	<u>3.3</u>
TOTAL	1.4	5.0	3.6
Sunflower Oil	0.6	1.0	0.4
Soybean Oil	<u>0.1</u>	<u>0.8</u>	<u>0.7</u>
TOTAL	0.7	1.8	1.1
<u>Crush:</u>			
Sunflowerseed	1.8	2.5	0.7
Soybeans	<u>0.7</u>	<u>4.8</u>	<u>4.1</u>
TOTAL	2.5	7.3	4.8
<u>Net Exports:</u>			
Soybeans	2.3	1.4	-0.9
Sunflowerseed	<u>---</u>	<u>0.1</u>	<u>0.1</u>
TOTAL	2.3	1.5	-0.8
Soybean Meal	0.3	3.5	3.2
Sunflower Meal	<u>0.7</u>	<u>1.8</u>	<u>1.1</u>
TOTAL	1.0	5.3	4.3
Sunflower Oil	0.3	0.7	0.4
Soybean Oil	<u>0.1</u>	<u>0.7</u>	<u>0.6</u>
TOTAL	0.4	1.4	1.0

January 20, 1988

TABLE 15

BRAZIL: SIGNIFICANT MARKET SHARE GAINS (MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
<u>Production:</u>			
Soybean Meal	8.1	11.1	3.0
Soybean Oil	2.0	2.7	.7
<u>Crush:</u>			
Soybeans	10.6	14.3	3.7
<u>Net Exports:</u>			
Soybean Meal	5.5	8.3	2.8

January 20, 1988

TABLE 16

CHINA: SIGNIFICANT MARKET SHARE GAINS (MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
<u>Production:</u>			
Soybeans	7.5	11.7	4.2
Cottonseed	4.1	6.6	2.5
Rapeseed	2.4	5.9	3.5
Groundnuts	<u>2.0</u>	<u>4.1</u>	<u>2.1</u>
TOTAL	16.0	28.3	12.3
Soybean Meal	2.3	3.5	1.2
Cottonseed Meal	1.6	3.3	1.7
Rapeseed Meal	1.3	3.4	2.1
Groundnut Meal	<u>0.6</u>	<u>2.2</u>	<u>1.6</u>
TOTAL	5.8	12.4	6.6
Cottonseed Oil	0.4	0.7	0.3
Groundnut Oil	<u>0.4</u>	<u>1.4</u>	<u>1.0</u>
TOTAL	0.8	2.1	1.3
<u>Crush:</u>			
Groundnuts	2.0	3.6	1.6
Rapeseed	2.2	5.6	3.4
Cottonseed	2.6	5.0	2.4
Soybeans	<u>3.3</u>	<u>4.6</u>	<u>1.3</u>
TOTAL	10.1	18.8	8.7
<u>Net Exports:</u>			
Soybeans	0.1	1.7	1.6
Soybean Meal	0.0	0.9	0.9
Rapeseed Meal	<u>0.0</u>	<u>0.8</u>	<u>0.8</u>
TOTAL	0.0	1.7	1.7

January 20, 1988

TABLE 17

INDONESIA: SIGNIFICANT MARKET SHARE GAINS (MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
<u>Production:</u>			
Palm Oil	0.6	1.3	0.7
<u>Net Exports:</u>			
Palm Oil	0.4	0.7	0.3

January 20, 1988

TABLE 18

INDIA: SIGNIFICANT MARKET SHARE GAINS (MIL MT)

	<u>79-80</u>	<u>86-87</u>	<u>CHANGE</u>
<u>Production:</u>			
Soybeans	0.4	1.0	0.6
Soybean Meal	0.2	0.6	0.4
<u>Crush:</u>			
Soybeans	0.3	0.9	0.6
<u>Net Exports:</u>			
Soybean meal	0.1	0.6	0.5

January 20, 1988

TABLE 19

U.S. SOYBEAN PRICES AND ENDING STOCKS

<u>Crop Year</u>	<u>Average Farm Gate Price/Bu</u>	<u>Free</u>	<u>Ending Stocks (mil bu)</u>		<u>Total</u>
			<u>Under Loan</u>	<u>Owned By CCC</u>	
80-81	\$7.40	252	61	-----	313
81-82	5.96	176	78	-----	254
82-83	6.10	199	121	25	345
83-84	7.49	147	28	1	176
84-85	5.69	160	155	1	316
85-86	5.09	82	324	130	536
86-87	4.80	66	90	280	436
87-88 *	5.40	215	60	20	295

* Estimate

January 20, 1988

Testimony before the International Trade Commission on April 28, 1987

APPENDIX I

UNFAIR TRADE PRACTICES:

In April, 1983, after a year of research, the NSPA filed a global Section 301 petition with the U.S. Trade Representative which cited nine different unfair trade practices being utilized (singly, or in combination) by six countries which compete with the U.S. for world edible oil and protein meal markets. The petition was accepted, and a Section 301 investigation was initiated, except with respect to differential export taxes in Argentina and Brazil, and differential export duty exemptions in Malaysia. The excepted trade practices were subsequently discussed with Argentina, Brazil, and Malaysia on a bi-lateral basis.

In September, 1983, the National Sunflower Association filed a Section 301 petition against Argentina's differential export taxes for sunflower, sunflower oil, and sunflower meal. This petition was subsequently withdrawn without prejudice.

In December, 1985, the NSPA filed a new Section 301 petition against Argentina's differential export taxes for soybeans, soybean oil, and soybean meal. This last petition was temporarily withdrawn at the request of the Treasury Department, but was refiled in April, 1986. The refiled petition was accepted, a Section 301 investigation was initiated, and Argentina recently agreed to eliminate all agricultural export taxes by October 15, 1987.

Wherever sufficient information was available, NSPA estimated the subsidy value of the unfair trade practices cited in the 1983 petition.

The estimates were never effectively challenged. They are summarized below:

<u>Country</u>	<u>Trade Practices</u>	<u>1983 Subsidy Value (\$mil)</u>
Brazil	Preferential export and drawback financing	\$223
	All others, except income tax exemption	61
	Total	\$284
Malaysia	Differential export duty exemptions	\$141
Argentina	Differential export taxes	108
Spain	All	40
Portugal	Guaranteed crushing margins	33
Canada	Processing subsidy	24
Total		\$630

The present status of the unfair trade practices cited in these petitions is as follows:

<u>Country</u>	<u>Trade Practices</u>	<u>Status</u>
Brazil	Preferential Export financing for soybean oil and meal (2 programs)	Suspended since 1984
	Preferential drawback financing	Suspended since 1983
	Preferential inventory financing	Still in effect, but subsidy reduced
	Income tax exemption on soybean oil exports	Still in effect
	Differential export taxes	Still in effect, but much less onerous than in Argentina

	Preferential clearing arrangements	Still in effect for several East European countries
Malaysia	Differential export duty exemptions for palm oil	Still in effect, but less onerous than in 1983
	Preferential export financing	Still in effect
Argentina	Differential export taxes	Still in effect, but the Argentine government has agreed to eliminate all agricultural export taxes by October 15, 1987
Spain	Domestic consumption quota for soybean oil	Still in effect, until 1991
	Tax rebate on soybean oil exports	Eliminated in 1986 re EC accession
	Preferential export financing for soybean oil and soybean meal	Eliminated in 1986 re EC accession
Portugal	Government guaranteed crushing margins	Eliminated in 1985 re EC accession
Canada	Processing subsidy for rapeseed	Eliminated in 1984
	Transportation subsidies	Still in effect, and more onerous than in 1983

The injury to our industry caused by these subsidies arises out of two virtually inevitable consequences:

- First, the subsidies have caused the construction of unneeded processing capacity, resulting in substantial excess world capacity.

- Second, most of the subsidy value gets passed on to importing countries in the form of lower oil and meal prices. The best example at this writing is that Argentine and Brazilian FOB soybean oil prices are about \$70 per MT below U.S. FOB prices for May-June shipment. This is a discount of about 20%. The last time U.S. FOB soybean oil prices were competitive with Argentina and Brazil was in early 1985. Also at this writing, Argentine and Brazilian CIP Rotterdam soybean meal prices for May delivery, adjusted to reflect quality differences, range from \$6 to \$11 per MT under comparable U.S. CIP Rotterdam prices. These are discounts ranging from 3% to 6%.

In most cases, the magnitude of the injury is closely correlated with the magnitude of the subsidy. At the time of NSPA's 1983 filing, Brazil's preferential financing programs for export and drawback were, in the aggregate, clearly creating the greatest injury. Following their suspension in 1984, and in view of the sharp narrowing of Malaysia's differential export duty exemptions for palm oil, Argentina's differential export taxes clearly became the most injurious of the cited practices. During recent years, Argentine crushers have consistently exported soybean oil and soybean meal at prices which yielded less revenue than the value of unprocessed soybeans. If Argentina fulfills its recent commitment to eliminate all agricultural export taxes by October 15, 1987, and provided no new processing or exporting subsidies are introduced, Argentine crushers will have raise their selling prices for soybean oil and soybean meal.* However, Argentina has been slow to respond to U.S. requests to eliminate this predatory practice, and the U.S. industry still awaits concrete evidence that the Section 301 process can achieve meaningful relief.

*Argentina subsequently reneged on its commitment and the USTR is attempting to re-negotiate compliance.

EC OILSEEDS POLICY - AN ACCELERATING THREAT:

As discussed earlier, EC production of oilseeds is growing rapidly under the stimulus of heavy subsidies. EC 12 production of rapeseed, sunflowerseed, and soybeans reached 6.8 mil MT in 1985-86. This represented an increase of 4.9 mil MT, or 266%, since 1979-80. Oilseed imports during the same period declined a nearly offsetting 4.3 mil MT, with U.S. soybeans and sunflowerseed suffering most of the decline. See Table 20.

Under present EC pricing policies (favorable prices for oilseeds relative to grains), oilseed production will continue to increase rapidly. Present estimates for the 1987 crop are as follows (mil MT):

Rapeseed	3.0
Sunflowerseed	4.0
Soybeans	<u>1.0</u>
Total	10.0

Crops of this size will inevitably cause further declines in oilseed imports, primarily U.S. soybeans, and a sharp increase in net exports of subsidized rapeseed oil. In addition, the EC will become, for the first time, a significant net exporter of subsidized sunflower oil.

The EC has brought about these changes only at enormous cost. (See discussion on page 9). The cost of oilseed subsidies has escalated rapidly in recent years, as follows:

Calendar Year	Subsidy Cost	
	Bil ECU	Bil \$ ^{1/}
1984	0.930	1.075
1985	1.440	1.665
1986	2.320	2.682

^{1/} At current exchange rates.

Subsidies paid for the production of proteinaceous crops cost an additional 0.39 bil ECU's (\$0.45 bil) in 1986.

Current estimates of the subsidy cost for the 1987 oilseed crops range from 3.5 to 4.0 bil ECU. At this level, the cost has become a major budgetary problem for the EC. In an effort to develop a new source of financing, the European Commission has proposed a huge consumption tax on all edible oils within the EC, with the proceeds earmarked for oilseed subsidies. The tax rate for 1987-88 would be 330 ECU/MT (\$381/MT), or more than the current price of crude soybean oil. The tax would be levied at the border for imported oils, and at the refinery for oils produced within the EC (whether from EC produced oilseeds or imported oilseeds).

The rapidly increasing production of highly subsidized EC oilseeds represents a major competitive threat to our industry. It is extremely important that the subsidies be capped and the growth stopped. An absolutely essential first step is to prevent the EC Council of Ministers from adopting the proposed consumption tax. If the tax is implemented, it will stimulate additional EC oilseed production, reduce EC edible oil consumption, reduce EC soybean imports, and increase EC exports of subsidized vegetable oils, all at the expense of the U.S. soybean industry.

THE EFFECTS OF LDC DEBT:

The current high levels of LDC debt adversely affect our industry in two ways. The first is to inhibit the purchasing power of LDC's which import soybeans and soybean products. Mexico, Venezuela, Poland, Peru, and the Philippines fall into this category. Their problem can often be solved via the judicious use of PL 480 food aid and GSM credit guarantees.

The second, more complicated effect is to increase the production and exports of LDC's which export soybeans and soybean products. Argentina and Brazil fall into this category. The solution to this problem is

more difficult. On the one hand, institutions like the World Bank, the IMF, and the U.S. Treasury and State Departments are trying to prevent major debt defaults by Argentina and Brazil. To this end, they encourage Argentina and Brazil to adopt policies which will increase their production and exports of soybeans and soybean products. On the other hand, to the extent such policies are successful, they injure both the hardpressed American soybean producer and the shrinking U.S. soybean processing industry. In addition, the loss of export volume and economic activity exacerbates the U.S. trade deficit and budget deficit.

The result is a major policy conflict between avoiding LDC debt default and strengthening America's agricultural economy. In our view, U.S. policy in this area has been, and remains, decidedly unbalanced. We note that many of the large banks with big loans to Argentina and Brazil are reporting record profits and paying substantial dividends, while soybean farmers and rural banks are going bankrupt. In addition, during the last three years, four cooperatives and two major corporations have left the U.S. soybean processing business, nine processing plants (including one of the world's largest) have closed permanently, and twenty-eight processing plants -- 37% of the industry's total -- have either been sold, or are now for sale.

From our perspective, it is painfully obvious that financial policymakers in the U.S. government, the World Bank, and the IMF have consistently favored money-center banks over U.S. agriculture, thereby creating major economic problems for our industry.



1255
TWENTY-THIRD
STREET
N.W.
WASHINGTON
D.C.
20037

(202) 452-8040

TELEX:
248959

TELECOPIER:
(202) 833-3636

March 25, 1988

The Honorable John Melcher
730 Hart Senate Office Building
Washington, D. C. 20510

Dear Senator Melcher:

NSPA would like to supplement the record of the marketing loan hearing which you chaired on Friday, March 18, 1988.

One vital point that we would like to underscore is the fact that world demand for high protein oilmeals and edible oils and fats is growing at a very healthy rate. During the past seven crop years (1979-80 through 1986-87), world production of high protein oilmeals increased 26%, and world production of edible oils and fats increased 30%.

If the U.S. had maintained a fair share of that growth in world demand, our soybean industry would not be in trouble today. Regrettably, during the same seven crop years, U.S. exports of soybean meal declined 7%, and U.S. exports of soybean oil declined 56%.

NSPA members believe that both U.S. agricultural legislation and administration policy should be designed to assure that the U.S. soybean industry obtains a fair share of the growing world demand for our products. Instead, the present combination of agricultural legislation and administration policy is forcing our industry to give up market share not only in percentage terms, but also in terms of absolute volume.

In our opinion, there is no single cause for this appalling situation, and there is no single cure. However, we believe four specific actions by the U.S. government can reverse the trend of the past seven years and create conditions which will enable the U.S. soybean industry to start growing again.

These four action steps are the following:

1. Enact mandatory marketing loans for U.S. oilseeds;
2. Amend the 1985 Food and Security Act to give growers the option to produce soybeans on a limited number of program acres without losing any base acres;

JAMES W. LINDSAY
Chairman

C. LOCKWOOD MARINE
Vice Chairman

THOMAS O. PALMBY
Secretary

MERRITT E. PETERSEN
Treasurer

SHELDON J. HAUCK
President

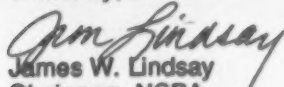
ALLEN F. JOHNSON
Executive Vice President

3. Continue aggressive use of the EEP for vegetable oil to combat subsidized foreign competition; and

4. Aggressively seek to eliminate competitors' unfair trading practices, both in the Uruguay Round negotiations on agriculture, and via vigorous pursuit of Section 301 investigations.

Steps one and two require legislation, and we strongly support S. 2135 as a way of accomplishing step one. Steps three and four require aggressive action by the administration, and we appreciate your continued support to that end.

Sincerely,


James W. Lindsay
Chairman, NSPA

T025

Senator MELCHER. Thank you.
Mr. Anderson.

**STATEMENT OF FLOYD ANDERSON, PRESIDENT, NATIONAL
SUNFLOWER ASSOCIATION, BROCKET, ND**

Mr. ANDERSON. I will also ask that my prepared statement as written be entered in the record, and I will just make a few brief comments because of time.

Sunflowers were a Cinderella crop in North Dakota in the late 1970's and early 1980's. At that time we were asked if we wanted to be part of the 1981 farm bill and the 1985 farm bill, and we said, no, because what we were asked to take was a straight loan. We are not interested in a straight loan because we do not want a support price that guarantees a support price for sunflowers to anybody else in the world.

A marketing loan is what we want. And if we would have known what a marketing loan was in 1981, we would have asked for a marketing loan in 1981.

I will answer any questions you have.

[The prepared statement, with attachments, of Mr. Anderson follows:]

STATEMENT OF FLOYD ANDERSON
PRESIDENT, NATIONAL SUNFLOWER ASSOCIATION

before the

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES
SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

UNITED STATES SENATE

March 18, 1988

Good morning, Mr. Chairman. I am Floyd Anderson, a sunflower producer from Brocket, North Dakota, and president of the National Sunflower Association. NSA represents 15,000 sunflower producers in six states, and 250 industry-related members.

The U.S. sunflower industry very much appreciates your decision to hold these hearings. We are aware that the conventional wisdom is that the 1985 Farm Bill is "working" for most farmers and that it will be difficult to convince Congress to make policy changes this year. We also know that support for the marketing loan is not unanimous among farm groups, and that its benefits may not be the same for all crops. And given the continuing opposition of the Administration to adopting a marketing loan for oilseeds, the political consensus may be to wait until 1989 or the next farm bill in 1990.

Notwithstanding these points, Mr. Chairman, from the perspective of the U.S. sunflower industry, the marketing loan is more than just a better farm program. It is a matter of survival.

The United States is rapidly losing its share of foreign markets for oilseeds and products to subsidized competition. Waiting for the 1990 farm bill might be acceptable if sunflower prices were high or if we had the protection of a price support loan program. In the absence of such assurances, however, the existence of a sunflower industry in this country in the 1990's and beyond is in the hands of foreign marketing boards in Europe and South America.

Members of the Committee will recall that our industry declined offers to include a sunflower loan program in the 1981 farm bill. We preferred, then as now, to compete without prices or production restrictions on the world market.

Up to 1981, sunflower had done well as a non-program crop, even in competition with the domestic programs for soybeans and cottonseed. Our production base rose to a high of 5.5 million acres in 1979.

Those conditions began to change with the farm crisis, as acreage shifted to program crops in a "race for base." Still, sunflower received premium prices in foreign markets, and we weathered the early years with strong export markets.

Starting about four years ago, however, a "second shoe" dropped on our industry. Through deliberate policy changes, the European Economic Community began a massive program to shift acreage from wheat and barley production to sunflower and rapeseed. In the case of sunflower, this was achieved by raising the EC producer support price to the equivalent of 23-25 cents per pound, compared to U.S. and world price of 7 to 10 cents per pound.

- 3 -

The scale and speed of this conversion, accelerated by the accession of Greece, Spain and Portugal, is clearly documented in a circular on EC Oil Production released by USDA's Foreign Agriculture Service in December, which is attached to my testimony.

The sunflower industry considers this report irrefutable proof of the EC's predatory attack on world oil production and market share. It is targeted directly at American agriculture, and at efforts to establish a more free and fair international marketplace for agricultural trade. From our perspective, it cannot go unanswered.

Mr. Chairman, sunflower acreage in the United States last year was 1.8 million acres, down 67 percent from our peak acreage in 1979. More significantly, it was half of our 3.6 million acres in 1984. During the same three-year period, sunflower acreage in France has grown from 1.1 to 2.4 million acres, an increase of 120 percent. EC production of rapeseed has increased at a similar rate.

The response to this long-term strategy by the EC must be a long-term U.S. strategy. The current Export Enhancement initiatives for vegetable oil sales to Mediterranean Basin countries and India have temporarily boosted prices and demand for sunseed, but they cannot create an environment for long-range planning and growth in our industry. And the EEP has no deterrent effect on foreign production plans. Only the marketing loan -- which ensures the U.S. will be competitive -- in every legal market every day -- can send those long-term signals.

Mr. Chairman, sunflower is a rotation crop that fits well in the cropping pattern in the more arid area from North Dakota to the High Plains of Texas. Further sunflower acreage reductions in the U.S. will simply legitimize the EC's shift in crop production strategy and wreck the fragile U.S. support industries of crushing plants and hybrid seed companies. The abandoned sunflower acres will find their way into government support programs such as rye or through base expansions.

The fundamental issue facing these Subcommittees, however, is not simply the survival of the U.S. sunflower industry. Nor is it the relationship between program and non-program crops under the farm bill. THE BASIC ISSUE HERE IS WHETHER THE ADMINISTRATION AND CONGRESS WILL CONTINUE TO ALLOW THE EUROPEAN COMMUNITY TO ESTABLISH DOMINANCE IN GLOBAL VEGETABLE OIL MARKETS IN THE NEXT DECADE. Congress made that choice regarding feed grains and wheat by defending exports for these crops in the last two farm bills. Now the same choice must be made regarding oilseeds. The 1990 farm bill in nearly three years from enactment -- probably 3½ to 4 years from implementation. Speaking for the U.S. sunflower industry, Mr. Chairman, our producers, and exporters cannot wait that long. We need a marketing loan in place in 1988.

Thank you, Mr. Chairman. I will be glad to answer any questions you or your colleagues on the Subcommittees may have.



United States
Department of
Agriculture

Foreign
Agricultural
Service

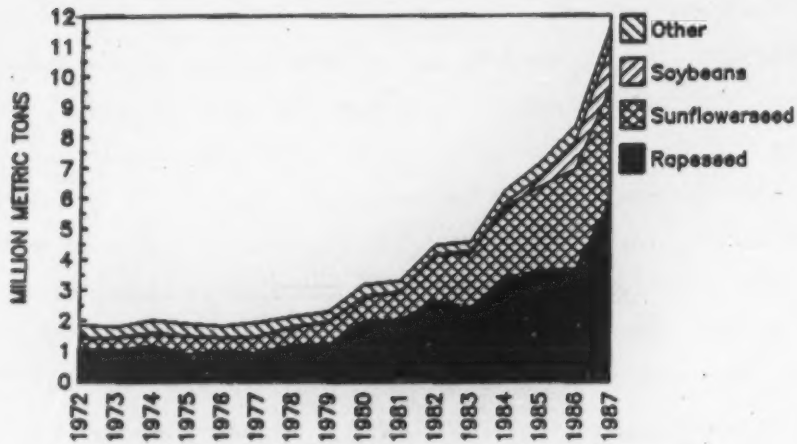
Circular Series

WCP 12-87

December 1987

World Crop Production

EC-12: OILSEED PRODUCTION



 *This issue of World Crop Production includes a production feature concerning *
 *EC-12 oilseed production on page 19. *

Approved by the World Agricultural Outlook Board - USDA

EC-12 OILSEED PRODUCTION

The agricultural production policies of the European Community (EC) have resulted in surpluses of various commodities such as grains, dairy products, and sugar. In a move aimed at shifting land from the production of surplus commodities and in order to become more self-sufficient in oilseeds, the EC has adopted a policy of extremely generous subsidies to expand oilseed production. Even though the subsidy is paid to the oilseed processor, the processor is obligated to pay the producer the guaranteed minimum price for his seed. The subsidy is a variable amount roughly equal to the difference between the minimum support price and the world market price (See graph 1). For example, the EC minimum price for soybeans is currently about \$550 per ton, more than twice the world price, which results in a subsidy of about \$350 per ton. The widening divergence between EC and world market prices over the last several years has rapidly escalated the cost of the oilseed regime to the EC. In 1986, oilseed production subsidies were just over 1.7 billion ECUs, up more than 350 percent from 1980.

Oilseed production during the 1970's increased only about 25 percent, but changes in EC price policy for oilseeds beginning in the late 1970's have resulted in tremendous growth in recent years (See graphs 2, 3, and 4). Oilseed prices relative to grain prices have visibly changed during this time period. Since 1978 the intervention price of soft wheat and corn increased 7 and 14 percent, respectively, while that of rapeseed and sunflowerseed increase 41 and 70 percent (See graphs 5 and 6). As a result, substantial area has shifted from grains into oilseeds (See graph 7). During the last 10 years, oilseed crop area has more than tripled, average yield has increased over 60 percent, and production has more than quintupled. Record oilseed production has been achieved every year since 1976 with EC production for 1987 estimated at 11.6 million tons.

Although rapeseed and sunflowerseed comprise most of the EC's production (51 percent and 32 percent, respectively), the most dramatic increases have recently come from soybeans (See graph 8). In Italy, which accounts for nearly 90 percent of the EC's soybean output, production has increased from a mere 9,000 tons in 1981 to nearly 1.5 million tons in 1987. Seven EC countries produce nearly all the oilseed output. France is by far the EC's leading oilseed producer. France produces 45 percent of all EC oilseeds, an amount equivalent to the combined output of Italy, Spain, West Germany, and the United Kingdom. Together, these five countries accounted for more than 90 percent of EC oilseed production in 1987 (See graph 9).

PRODUCTION BY OILSEED AND COUNTRY

Rapeseed production accounts for 51 percent of total EC oilseed production. Production has increased 142 percent since 1983. The key producers are France (45 percent); United Kingdom (22 percent); West Germany (21 percent); and Denmark (10 percent).

Sunflowerseed production accounts for 32 percent of total EC oilseed production. Production has increased 112 percent since 1983. The key producers are France (62 percent); Spain (27 percent) and Italy (6 percent).

Soybean production accounts for 12 percent of total EC oilseed production. Production has increased 1,551 percent since 1983. The key producers are Italy (88 percent); and France (11 percent).

Cottonseed production accounts for 3 percent of total EC oilseed production. Production has increased 51 percent since 1983. The key producers are Greece (66 percent) and Spain (33 percent).

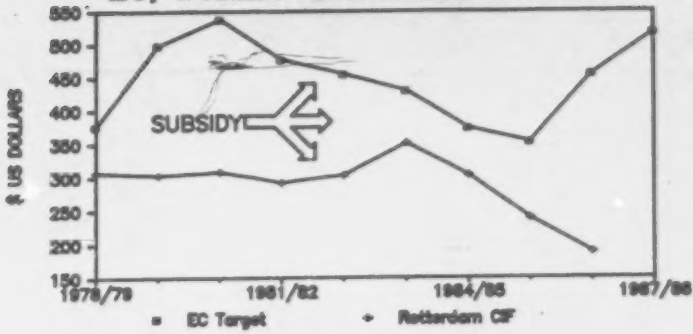
Flaxseed production accounts for less than 1 percent of total EC oilseed production. Production has increased 53 percent since 1983. The key producers are France (55 percent) and the United Kingdom (20 percent).

Peanut production accounts for less than 1 percent of total EC oilseed production. Production has increased 80 percent since 1983. The only producers are Spain (89 percent) and Italy (11 percent).

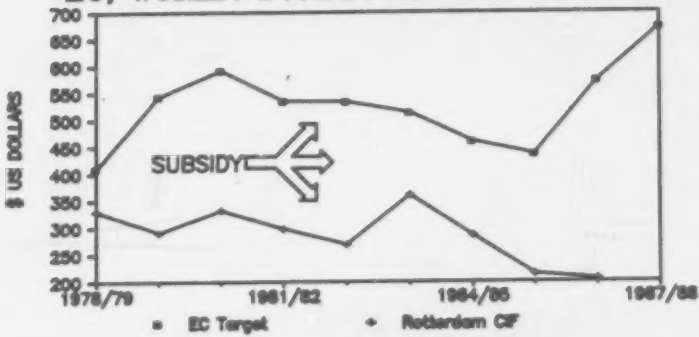
Editor's Note.--Graph 4 does not print. This graph does not pertain to the subject matter.

GRAPH 1

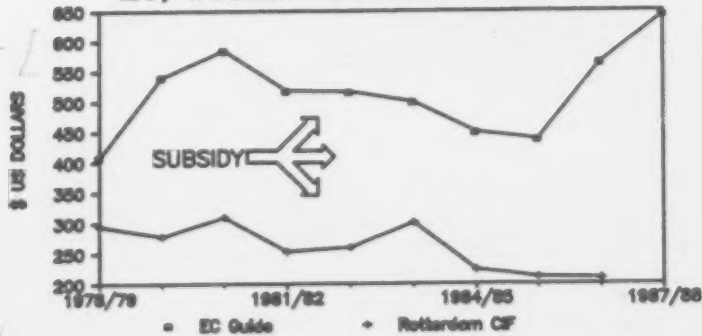
EC, WORLD: RAPESEED PRICES



EC, WORLD: SUNFLOWERSEED PRICES

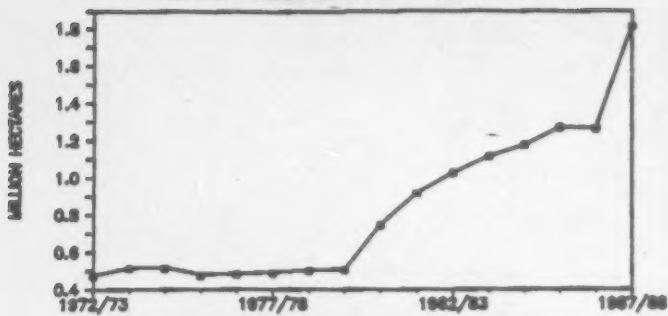


EC, WORLD: SOYBEAN PRICES

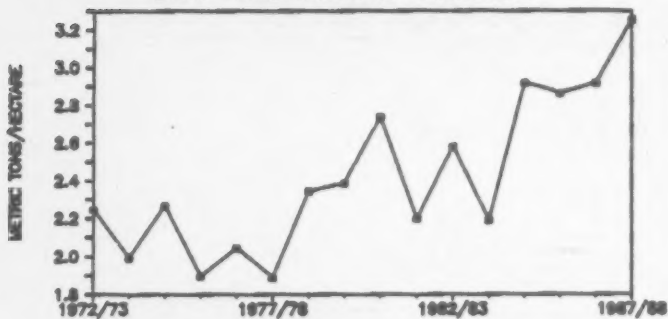


GRAPH 2

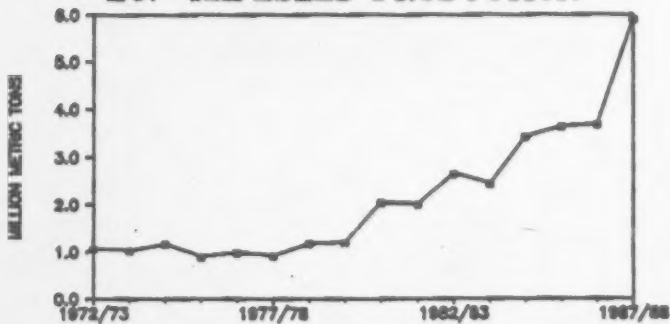
EC: RAPESEED AREA



EC: RAPESEED YIELDS

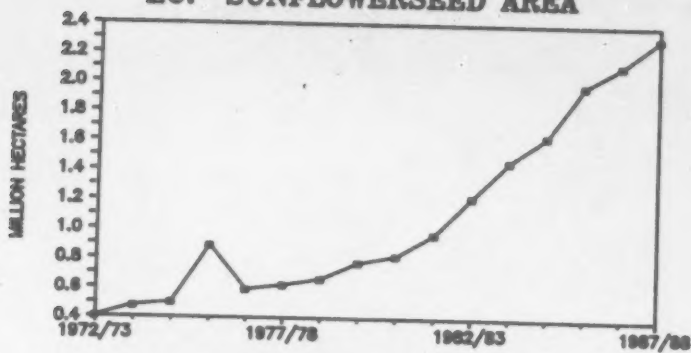


EC: RAPESEED PRODUCTION

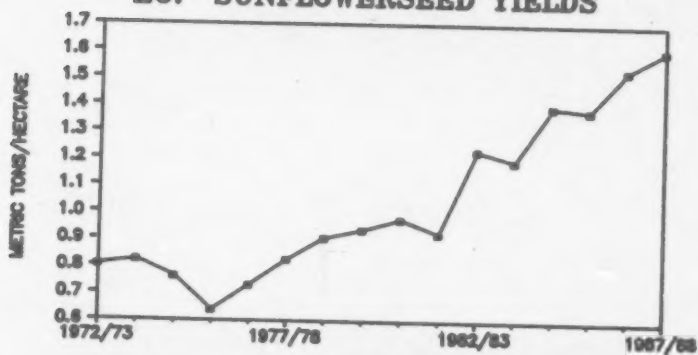


GRAPH 3

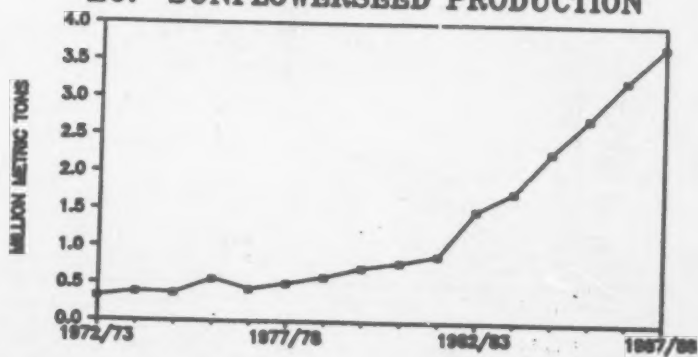
EC: SUNFLOWERSEED AREA



EC: SUNFLOWERSEED YIELDS

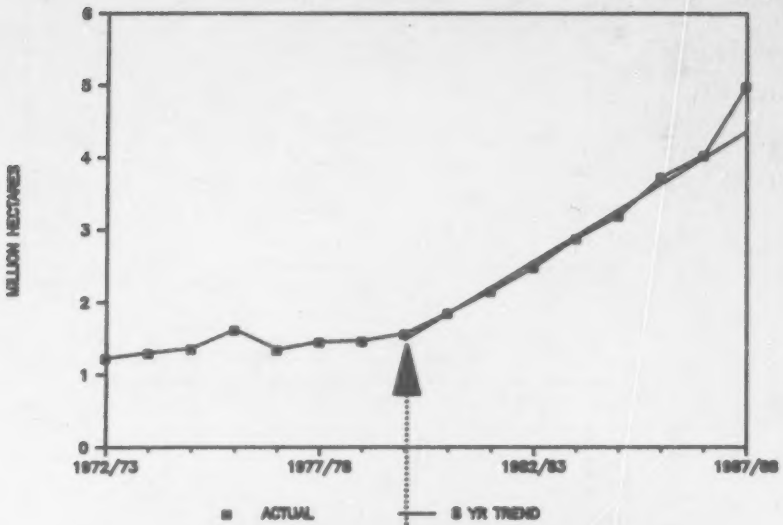


EC: SUNFLOWERSEED PRODUCTION



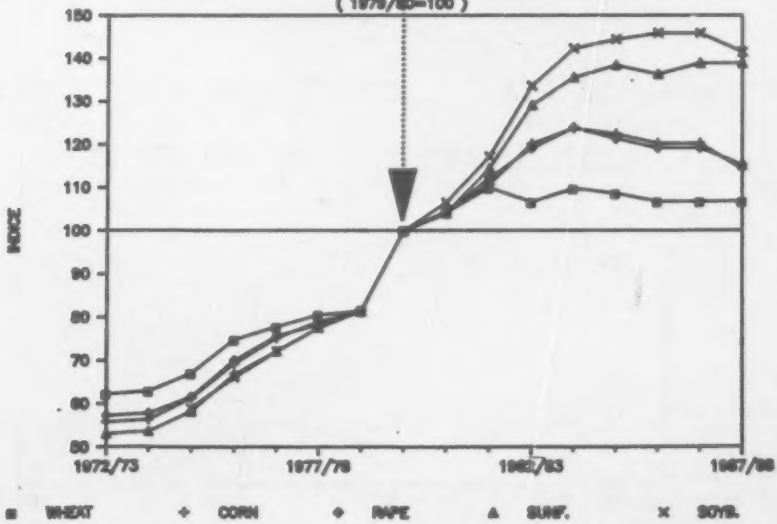
GRAPH 5

EC-12: OILSEED AREA



EC INTERVENTION PRICE INDICES

(1978/80=100)

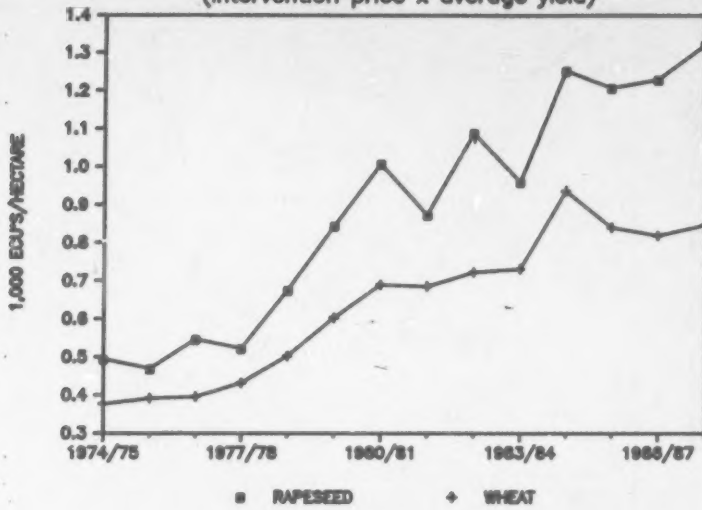


USDA/FAS/FPED

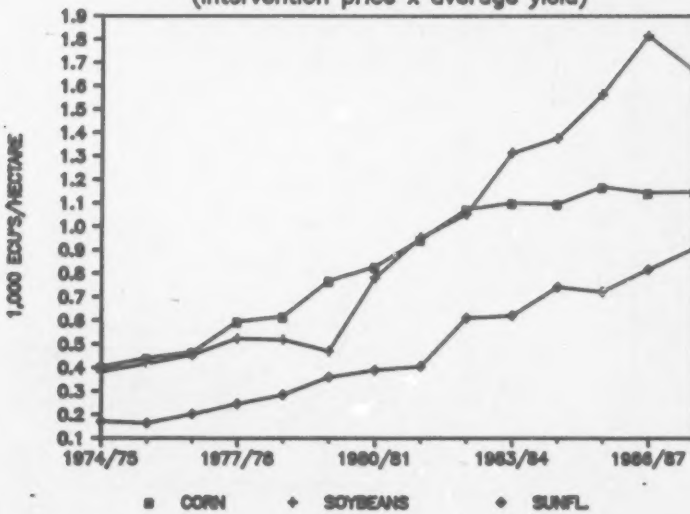
GRAPH 6

EC: GROSS RETURN FOR COMPETING CROPS

(Intervention price x average yield)

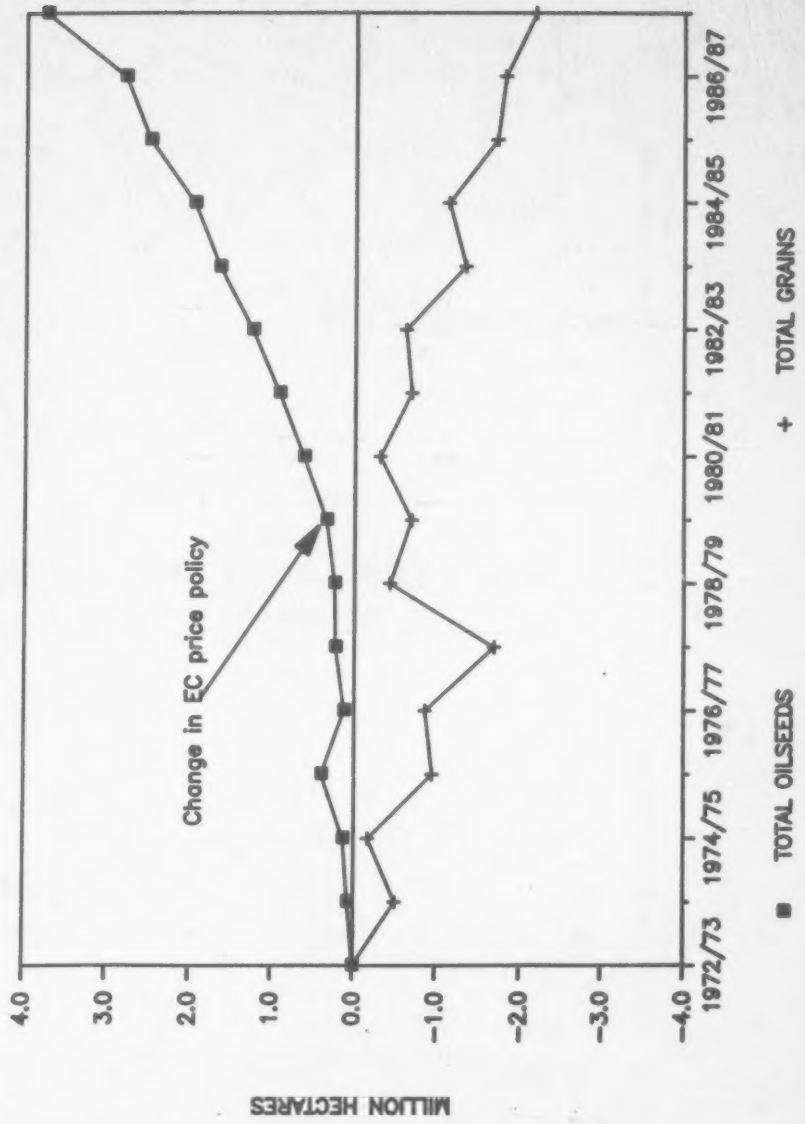
**EC: GROSS RETURN FOR COMPETING CROPS**

(Intervention price x average yield)



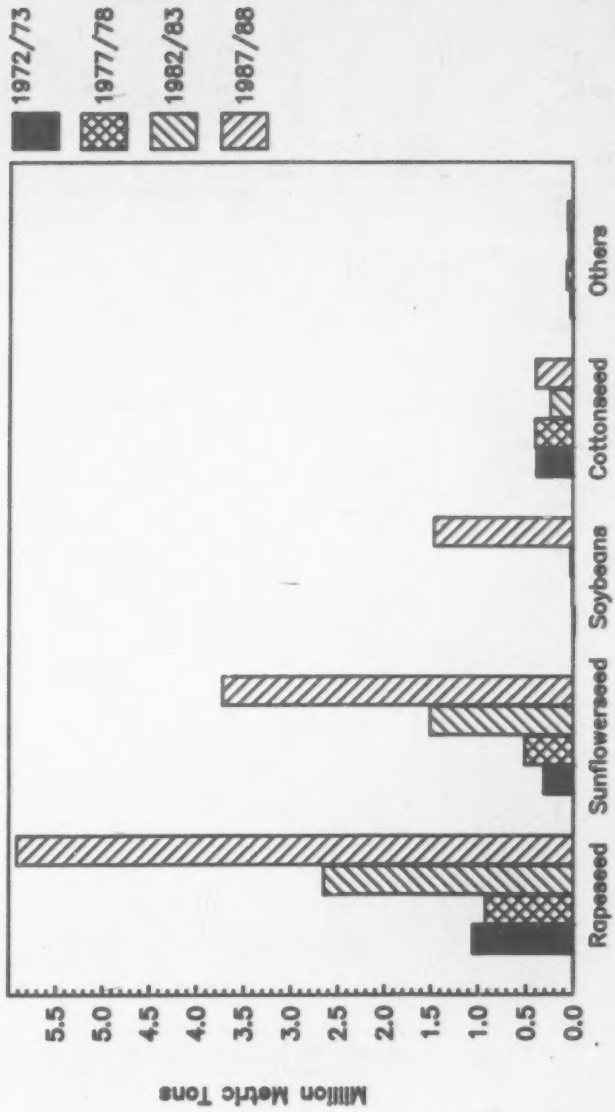
GRAPH 7

EC-12: CHANGES IN CROPLAND AREA



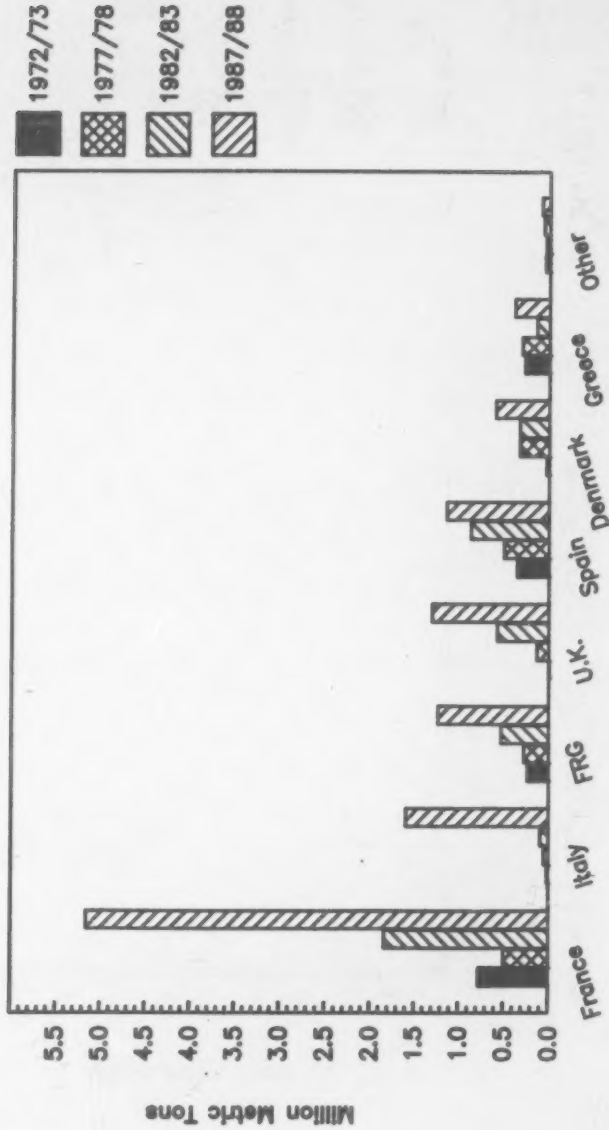
EC-12: OILSEED PRODUCTION BY COMMODITY

GRAPH 8



GRAPH 9

EC-12: OILSEED PRODUCTION BY COUNTRY



Senator MELCHER. Thank you.

Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you very much. I am very impressed with the argument made by Mr. Bennett for the marketing loan program. I have been convinced that that is the thing to do for some time now. Last year we introduced the bill here, two different versions of the bill. We were able to get the Senate to approve it. As a matter of fact, it was included in the reconciliation package at the request of the Senate Agriculture Committee, but we could not get it through the conference because of opposition from members of the conference from the other body.

We also had been under the impression, as a result of that conference—and I can remember Senator Pryor, your Senator, asking the question during the conference whether we could get commitments to pass the bill as a separate freestanding bill this year since it could not get included in that reconciliation. And we were under the impression—I was—that we were going to see movement in that direction.

Now I hear—and this is my question—that the subcommittee over in the House that has jurisdiction has now pulled the bill back. They were moving forward and now they have stopped action. What is going on? Is there anything we can do to help move the process along over here?

Mr. BENNETT. I am not sure, Senator. We would like to know what is going on, too. They told us that because we changed from 1988 to 1989. But when they held the first hearing, we thought we could get it through in time to not disrupt the market. Now the farmers are about ready to plant.

Soybean farmers felt like it would be better to have a marketing loan enacted now because we would put the South Americans on notice if it took effect for the 1989 crop. And that way, it should not interfere with the market. We do not think it would with the market, but some of our farmers are a little nervous about changing in midstream, so to speak.

Senator COCHRAN. There is some question in everybody's mind about what this is going to do to the budget. Will there be a big cost to the Government? We heard the Secretary make an estimate of \$200 million, I think. But they are going to do a cost analysis as you heard. We requested that so we can have that for the record and so we will know what their estimates are.¹

But my question in connection with that is, that if the Department or OMB determines that it has associated costs; that there are costs to the Government, what provisions or suggestions does the industry have to make the program budget neutral? Is there any position by the industry on that item?

Mr. BENNETT. I do not think we have a position to—we do not think it will cost anything. We think it is neutral, especially with the prices the way they are now. Now would be the ideal time to put it in with high prices. We think there will be very little if any cost to it.

Senator COCHRAN. Thank you. Thanks, Mr. Chairman.

¹ See page 73 for the cost of a soybean marketing loan for the 1988-89 through 1990-91 crops.

Senator MELCHER. Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman.

Mr. Bennett, let me ask you this question. If the price of soybeans are projected to be substantially above \$5.02 for the next couple of years—at least looking down the pike that is what I hear—what good is a marketing loan if you have it at \$5.02 if the price of soybeans is \$6 a bushel?

Mr. BENNETT. Senator, a marketing loan tells the South Americans, if they want to expand they have to do it at the risk of world prices. And it takes 2 to 4 years to get an acre of land in production. They clear the land and then they usually plant it in a dry-land rice or something for a couple years until the chunks and the stumps are out of the way.

So a marketing loan will tell them that the prices may not be \$6 2 years from now, and it would still support the U.S. farmer at whatever loan rate you decide on, \$5.02 or what. The U.S. farmer will be protected, as he is now. But it will not protect the South Americans.

Senator HARKIN. But it looks to me as though the South Americans increase their acreage even if the soybean prices are down in that range.

Mr. BENNETT. They may do it. I do not know what we can do about that, but we think this will discourage them.

Senator HARKIN. I am just saying that those prices have not discouraged them in the past. And if soybeans were to fall to, God forbid, \$4.50 a bushel or \$4.70 a bushel, what would be the cost to our Government for the marketing loan for soybeans?

Mr. BENNETT. I am not sure what the costs would be. But the difference between a marketing loan and the loan we have now is that South American farmers would not be able to use \$4.77 or \$5.02 as a support price for their own beans. They would be at the world price risk.

Senator HARKIN. I guess that is what I do not understand. Now I understand that the original bill introduced on the House side by, I think it was Congressman Huckaby, was to start the soybean marketing loan this year. And as I understand, the Soybean Association said, no, they wanted to start it next year. What was that all about?

Mr. BENNETT. As I said earlier, our board voted in late February to go for 1989. They would like to have it passed by Congress in 1988, to send the message to South America, but implemented in 1989. And a lot of the farmers are getting ready to plant and they did not feel like it would interfere with the marketing which some people had already done.

Senator HARKIN. What is wrong with the concept of having an export subsidy just on the amount we export rather than a marketing loan for all soybeans?

Mr. BENNETT. You are talking about an EEP?

Senator HARKIN. Sure, across the board EEP. I mean, whatever the export. We will match world prices on the export of it with subsidies.

Mr. BENNETT. Unfortunately, I think that in a situation like that somebody else besides the farmer gets the bucks. I do not think that would help the farmer that much.

Senator HARKIN. Of course, if it is very low, the farmer has got to have enough to cover his cost of production. So if it is below that, what good does it do if the farmer does get some money? It does not help him out. He is still going bankrupt anyway, if it is below the cost of production.

Mr. BENNETT. Hopefully, the loan would be set at a price that would not be below the cost of production.

Senator HARKIN. Are you encouraged at all in promoting this by the marketing loan program for rice?

Mr. BENNETT. Yes, I also produce rice and it has been very effective in the rice industry.

Senator HARKIN. I do not know if you were in the room when I said earlier that if you give me enough money, I can make any program work. I have seen some figures. I do not have them right in front of me, but ballpark figures where the rice marketing loan program cost us somewhere in the neighborhood of \$700 million to get \$500 million in exports. Now is that good economics?

Mr. BENNETT. Well, I am not familiar with those figures, but all I know, it has worked. The price of rice almost doubled in 8 months. So from my point of view, it is working.

Senator HARKIN. As I said, if you give me enough Government money, I can make anything work. But rice is a very small commodity in this country compared to soybeans and feed grains. You are talking about big bucks there. You could swallow it for rice because the total amount of money was comparatively small. But if we are looking at the same thing in soybeans, we are talking about not just the difference, \$700 million and \$500 million, we are talking about billions now that we might be on the losing end of.

Mr. BENNETT. Of course, in rice we had a huge surplus, and we do not have that in soybeans. So I do not think you can compare the two. We have the rice surplus down, and the other countries that we compete against are beginning to back out on their production. So we think it is a good tool and it worked well.

Senator HARKIN. Have you thought about the price depressant effect? If you had a marketing loan at \$5.02, would that tend to depress prices a little bit?

Mr. BENNETT. We cannot see it because you still have the same price if—you have a loan now, basically the same. And all you do is call it a marketing loan. And that will take the floor from South America, but it is still going to protect the U.S. farmers.

Senator HARKIN. I just see that it might be price depressant, number one. Number two, it might at some point cost us a bundle of money. I do not know if that is the proper way to go rather than looking at more of a balance between the feed grains and soybean prices in this country, or at an export enhancement type of a program.

I am not convinced one way or the other on the soybean marketing loan. I initially liked the idea. Then the more I looked at marketing loans, the more I did not like it. And I am somewhere in between right now. I guess I still remain to be convinced that the marketing loan is in the best interest of the soybean farmer of this country. I cannot say one way or the other right now, but I have some real problems with the marketing loan concept itself.

As I said, can work on smaller crops like rice perhaps, where you have a surplus. But I do not think the economics pencils out over a longer period of time for a major crop like soybeans or corn or wheat. I think you get into big problems there.

Again, I remain to be convinced. I just do not know yet.

Thank you very much, Mr. Chairman.

Senator MELCHER. Senator McConnell.

Senator McCONNELL. Mr. Chairman, I am sorry to get here so late. I am simply going to ask that a statement be put in the record and listen with interest to this discussion.¹ I think it is an extremely important matter to consider. I have supported going to a marketing loan for soybeans and doing it prior to the expiration of the farm bill, and I am quite interested in what all these gentlemen have to say. Thank you.

Senator MELCHER. Thank you. Thank you all very much for testifying here today. You are the last witnesses for the hearing, and we appreciate it very much.

I will make part of the record, if there is no objection, testimony by Thomas Greer, president of the National Cottonseed Products Association and Aven Whittington, chairman of the National Cotton Council of America.

[The prepared testimony of Thomas Greer and Aven Whittington follows:]

¹ The prepared statement of Senator McConnell can be found on page 39.

TESTIMONY OF THOMAS W. GREER
PRESIDENT
NATIONAL COTTONSEED PRODUCTS ASSOCIATION

Before the Sub-Committees on

AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES
and
DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION
of the
SENATE AGRICULTURE COMMITTEE

Mr. Chairmen and members of the Committees, my name is Thomas W. Greer. I am President of Amory Cotton Oil Co., Amory, Mississippi. I am also President of the National Cottonseed Products Association (NCPA) on whose behalf I am submitting this statement. NCPA is a non-profit Trade Association, founded in 1897, whose members comprise over 95% of the cottonseed crushing capacity in the United States.

Crushing provides the major market for seed and represented 63% of usage in the 1986/87 season. Of the cottonseed oil produced in the last three seasons, 35% has been exported, almost all for free dollars, but the trend of exports is down because foreign producers have been making heavy inroads into traditional U. S. markets.

The 37% of seed not crushed is used mostly for dairy feed, some for beef cattle feeding and a small amount for export and planting. Our members are involved in marketing about 75% to 80% of the cottonseed crop to one market or another. All commercial outlets are important to us and we are concerned about the potential effects of a soybean market loan on the economic balance between them.

NCPA endorses the testimony of Mr. Aven Whittington, Chairman of the National Cotton Council. Cottonseed is the second largest oilseed produced and crushed in the United States in terms of volume, and prices of cottonseed products are directly related to soybean products. It is imperative that cottonseed be included in any program, such as a market loan for soybeans, that creates the potential for cash soybean prices to fall significantly below the loan rate. Cottonseed products also compete directly with sunflower products.

The two major markets for cottonseed, crushing and dairy feeding, react to different economic signals. Dairy men base their pricing decisions on the value of milk and butterfat content, both of which are price-supported by the government. Crushers rely solely on the value of cottonseed products, which in turn are dictated by the price of soybeans and soybean products.

The soybean support price of \$4.77 per bushel equates to about \$79 per ton of cottonseed (grower price), based on average historical product relationships. History has demonstrated that prices at this level are not a deterrent to the extensive use of cottonseed by dairies. In the past four seasons, cottonseed prices have declined significantly under the pressure of plummeting soybeans and averaged \$78 per ton in 1986/87. Feeding in that interval increased from 18% to 34% of total

use. As cottonseed product prices declined, dairies and feed lots were attracted to the market in ever increasing numbers.

Should soybean prices decline to say, \$4.00 per bushel, cottonseed product values would equate to no more and probably less than \$66 per ton, a level comparable to or even below feed grain prices. At such distress values, crushers would be no match for either dairies or feed lots in competing for cottonseed and would, through no fault of their own, lose significant if not overwhelming market share that might never be regained. Decades of product market development could be nullified if the supply of cottonseed products is interrupted. In a really serious and extended decline, oil mills would be forced to close, resulting in the loss of jobs, foreign exchange and the most significant market outlet for producers of cottonseed.

One additional concern is the effect on inventories. Oil mills acquire cottonseed at harvest for crushing as long as one year ahead. We ask that consideration be given to some form of inventory protection if the program is implemented at a time when unexpected market declines could create severe financial problems for those holding large raw material stocks.

To summarize, Mr. Chairmen, our concern is that cottonseed crushers will not be able to compete with dairies and feed lots for seed in times of very low soybean prices, inflicting serious damage on the industry and cotton producers alike. We request that market loan legislation include cottonseed in a way that will allow the Secretary of Agriculture to recognize the unique competitive factors that exist in cottonseed markets and structure the program so that the balance of competition is not artificially skewed.

Finally, NCPA and its members pledge their full cooperation in the design and administration of the program as we have always done in the past.

Thank you for allowing me to state the concerns of the National Cottonseed Products Association.

Respectfully Submitted,

J. W. Greer
Thomas W. Greer

Testimony of Aven Whittington, Chairman
National Cotton Council of America

Submitted for Inclusion in the Record of the Hearing
before the
Subcommittee on Agricultural Production and
Stabilization of Prices & Domestic and
Foreign Marketing and Production Promotion

I am Aven Whittington, Greenwood, Mississippi, cotton producer and chairman of the National Cotton Council. The Council is the central organization of the U.S. cotton industry, representing cotton producers, ginner, warehousemen, merchants, cooperative, textile manufacturers and cottonseed crushers.

Council delegates, at their last two annual meetings, have been unanimous in recommending price supports for cottonseed. The earlier action was taken well before there was any discussion of a marketing loan for soybeans.

Cottonseed products and soybean products are direct competitors. The meal and the oil from both crops go into the very same markets. Yet soybeans have a price support program but cottonseed does not. In times of excess supply of oilseeds, the soybean loan puts a floor under soybean prices, but unsupported cottonseed, with no such mechanism, falls well below the equivalent of the soybean support level. For the 1985 crop, for example, the season average cottonseed price received by farmers was \$66 per ton, while the equivalent of the soybean loan was about \$83. In some months that season and early the following season the price fell as low as \$57. This suggests that a cottonseed support is needed simply to give cotton growers equity with soybean growers.

If some mechanism is instituted for soybeans to enable that crop to meet world prices when the world price is below the U.S. loan level, equity demands that a commensurate program be established for cottonseed. The current soybean loan has now been lowered to the equivalent of about \$79 for cottonseed. If a marketing loan brings the soybean market price below the loan level, the resulting oil and meal market levels would make cottonseed prices ruinous.

Cotton growers count on the proceeds from cottonseed sales to help cover ginning costs. Therefore, their borrowing to finance crop production usually does not allow for any ginning charge. So if cottonseed prices fail to cover these charges by a substantial amount, growers may be forced to sell their fiber immediately, when prices are seasonally depressed, rather than holding for a more favorable market.

You might ask why they don't put their cotton in the loan rather than sell it. The answer is that the loan is now well below cash production cost, so loan proceeds would not be enough to repay production borrowing and a large ginning charge as well.

To pay the ginning charge for a bale of cotton requires a seed price of well over \$100 per ton. We certainly do not ask for support that high. At the \$79 equivalent level of soybeans, we still have problems. But if the cottonseed price were to drop into the 40's and 50's, as past experience indicates it could with a marketing loan for soybeans, the result could be disastrous.

We do not request that the cottonseed program be exactly like one you may devise for soybeans, due to the unique marketing structure of the cottonseed industry. In contrast to soybeans and other oilseeds, a substantial portion of the crop is not crushed but is sold as whole seed to dairies, and to a lesser extent, to beef cattle feeders. We would simply ask that you direct the Secretary of Agriculture to devise a program that is compatible with normal processing and marketing operations that is not detrimental to the cottonseed processing industry or to producers or ginners.

In summary, Mr. Chairman, we are here because soybean programs directly affect cottonseed; and because the price support for the fiber does not provide enough protection to offset low seed prices that may result from a soybean program.

We urge that you provide for equitable treatment for cottonseed in any soybean program you devise.

Thank you for hearing our views.

* * * * *

Senator MELCHER. Immediately after my opening statement this morning, we will make part of the record, the statement of Senator David Pryor, subcommittee chairman.

We will leave the record open for another 10 days if anybody cares to submit written testimony pertaining to the matters discussed today. The subcommittees are adjourned.

[Whereupon, at 12:03 p.m., the subcommittees were adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

T E S T I M O N Y

of

L. Sykes Martin, President
SOUTHERN COTTON GROWERS, INC.

before the

Senate Agriculture Committee's Sub-Committee

on

Agricultural Production and Stabilization of Prices

and

Domestic and Foreign Marketing and Product Promotion

March 18, 1988

Washington, D. C.

Mr. Chairman, members of the Committee.....

I am L. Sykes Martin, a Cotton Producer from Courtland, Alabama and am presently serving as President of Southern Cotton Growers, Inc. on who's behalf I address you today.

SOUTHERN COTTON GROWERS, INC. is the regional cotton producers organization representing cotton farmers from throughout Alabama, Georgia, Florida, North Carolina, and South Carolina.

Cottonseed, in the southeast, has historically provided our farmers with an avenue of income which they have used to defray their ginning costs. In most recent years, this income has been below his costs of ginning and has added significantly to the financial stresses our farmers have faced in the recent past years. Any disruption of this source of farm income could have a destructive effect on the future livelihood of the American cotton farmer.

We have seen over the past five (5) years the erosion of our historical markets for cottonseed as foreign oil has necessitated the closing of many cottonseed oil mills throughout the country.

We have had to look elsewhere for additional markets for our cottonseed. This market has come forth through the

feeding of whole cottonseed to dairy animals. In fact, USDA estimates show, that approximately 50% of the total U. S. cottonseed production this crop-year will be marketed through the dairy industry as feed.

Cottonseed competes directly with soybeans in our domestic markets and any marketing loan forthcoming on soybeans, without a corresponding loan on whole cottonseed, would severely reduce farm income and add an additional financial strain on our already financially over-burdened farming industry. The historical price relationship of cottonseed to soybeans of 16.5 to 1 must be maintained if our cotton farmers are not to lose another source of their income and be faced with low cottonseed prices.

Should this Committee and Congress implement a marketing loan on soybeans at a level of 4.53 or 4.77 per bushel, a corresponding marketing loan on cottonseed would be 74.74 and 78.70 respectively. Of course, such a level would not come close to covering the per bale cost of ginning a bale of cotton, but would maintain the equity between soybeans and cottonseed while at the same time stabilizing a cottonseed market our cotton farmers need in order to survive in today's agriculture environment.

Regardless of the type of loan you may deem appropriate for soybeans, it is imperative that a corresponding loan be made available for cottonseed, the benefits of which should be made available only to the ginner or producer.

In closing, Mr. Chairman, we urge this Committee to give cottonseed equitable consideration when implementing a soybean loan, without which our farmers will feel the impact of low cottonseed prices and experience added erosion of their income.

Thank you for your consideration.....

T E S T I M O N Y
of
Robert W. Greene, President
AMERICAN COTTONSEED ASSOCIATION, INC.
before the
Senate Agriculture Committee's Sub-Committee
on
Agricultural Production and Stabilization of Prices
and
Domestic and Foreign Marketing and Product Promotion
March 18, 1988
Washington, D. C.

Mr. Chairman, members of the Committee

I am Robert W. Greene, a cotton ginner from Courtland, Alabama.

I am also presently serving as President of the American Cottonseed Association, Inc. on whose behalf I present this testimony. The American Cottonseed Association, Inc. is the only national organization representing merchants of whole cottonseed on regional and national issues.

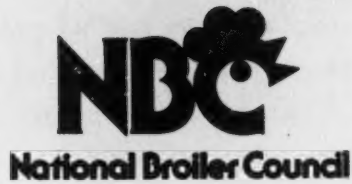
Cottonseed competes directly with soybean products for the feed market; and in fact, the price of cottonseed is determined by the soybean complex. Because of this strong value relationship between the two products, it is imperative that if a marketing loan is implemented for soybeans a similar program be enacted for whole cottonseed. In 1981, less than 8% of the cottonseed produced in the United States was fed to dairy cows. This year the USDA has projected that approximately 50% of the domestic production will be fed. So in just six years, consumption of cottonseed as a feed product has grown 525%. In 1982, 6,397,000 tons of cottonseed were processed, resulting in the production

of cottonseed oil and cottonseed meal. The USDA has projected that in 1988 2,750,000 tons of cottonseed will be processed from a total crop production of 5,480,000 tons. In other words, 2,730,000 tons of cottonseed, that only six years ago would have been processed, will now be fed. The American Cottonseed Association, Inc. contends that the loan should be on the whole cottonseed. If the loan is placed on the oil, as I understand has been proposed by the National Cottonseed Products Association, those 2,730,000 tons of cottonseed now fed will be added to the crush, contributing additional stocks of vegetable oil to an already burdensome supply. This is in no one's long-term best interest.

There is every reason to believe that the market trend of increased feeding of whole cottonseed will increase. This relatively new market has meant a great deal not only to cotton growers and cotton ginner, but has created a new industry made up of cottonseed merchants. In addition to these three affected groups, but certainly of no less importance, is the dairy farmer who has come to count on a dependable supply of cottonseed to feed his cows.

In closing, Mr. Chairman, should this committee see fit to implement a marketing loan for soybeans, we strongly urge the coincidental implementation of a cottonseed marketing loan on the entire United States cottonseed production. We further suggest that a cottonseed marketing loan maintain the historical price relationship between soybeans and cottonseed, and that the benefits go directly to the cotton grower or ginner.

Thank you for your consideration.



Statement of George B. Watts
President
National Broiler Council
Washington, D.C.

to the Subcommittees on

Agricultural Production and Stabilization of Prices
and

Domestic and Foreign Marketing and Product Promotion
Senate Agriculture Committee

March 18, 1988

The National Broiler Council is the trade association representing the producer/processors who market over 90 percent of the U.S. broiler chickens. We are pleased to have the opportunity to share our thinking on the soybean situation/outlook and government policy implications.

When the 1985 Farm Bill was being debated in Congress, the National Broiler Council supported and applauded the movement toward a more market-oriented farm policy. We recognized that it would be difficult, if not impossible, to totally and overnight change policies that had become ingrained in the fabric of most of U.S. agriculture. Rigidities and certain inequities remain in the current policy.

One rigidity and inequity becoming more onerous is the lack of flexibility soybean producers have responding to market prices and conditions. Clearly, the market is sending economic signals that more U.S. acreage should be planted to soybeans. However, current farm legislation and government regulations discourage producers from shifting more acres into soybeans. Producers do not want to jeopardize their program crop acreage base by planting non-program crops, such as soybeans.

Soybean producers in South America, especially in Brazil and Argentina, are not being hampered by such rules and regulations. Increased soybean production in competing countries jeopardizes U.S. share in world markets. In addition, greater soybean production would provide a basis of increased poultry production in South America for the export market. At this time of tremendous U.S. foreign trade imbalance, it would be unfortunate, but nevertheless quite possible that soybeans could be imported into the United States to meet domestic feeding needs at some time in the future. Under these circumstances, could farm policy be characterized as rational, reasonable, and in the best interest of the country?

U.S. Department of Agriculture's estimate for carry-out stocks of soybeans on September 1, 1988, is 315 million bushels or 15.5 percent of the 2.026 billion bushels expected to be used during the 1987/88 crop year. By comparison, carry-out stocks of soybeans a year earlier were 436 million bushels or 21.4 percent of the crop year disposition.

Although fifteen years have passed, the record low carry-out stocks of soybeans in 1973 remain an important part of every soybean user's equation when analyzing the market situation and outlook. During the 1972/73 crop year, 1.213 billion bushels of soybeans were used and only 60 million bushels remained for carry out, less than 5 percent of total disposition that year. The havoc created by the less-than-pipeline level of carry-out stocks reverberates yet today. World customers of U.S. agriculture commodities still make reference to the early 1970s agricultural export embargo imposed because supplies of soybeans and certain other agriculture commodities were inadequate. Tightness in

commodity supplies fueled domestic inflation in the consumers' food budgets and in the general economy. Although times have changed, risks remain. A weather-shortened soybean crop this summer combined with a less than adequate acreage planted to soybeans could be the basis for the re-kindling of problems experienced in the 1970s. Hopefully, we have learned from our past so that these problems will not re-appear.

The intent of this statement is not to overstate the risks involved or the unfortunate consequences of a shortfall in this year's soybean crop. Rather, the intent is to focus attention on a part of the farm policy that could exacerbate such a situation if it were to occur. It seems quite reasonable and prudent to now address the shortcomings in the current rules, rather than at a later date having to address the more costly and damaging results of sustaining a significant shortfall in U.S. soybean production. The National Broiler Council appreciates this opportunity to share our concerns.

○